

# Covered California

FY 2026-27 Proposed Budget



# HIGHLIGHTS OF THE FY 2026-27 PROPOSED BUDGET

## Budgeting Strategy and Outcomes

- Covered California has shifted from an incremental to a strategic budgeting approach
- All 19 divisions evaluated their specific budget line items as part of a strategic budgeting exercise and reallocated resources to more closely align their budgets with historic spending patterns and strategic objectives
- No new positions were added. Vacant positions were repurposed to meet new staffing needs.
- Budgeted expenditures were reduced by \$23 million in the baseline and \$15 million year over year.

## Long – Term Budget & Fiscal Sustainability

- We developed long-term trajectories for enrollment, revenue, and expenditures through FY 2031-32.
- We evaluated the impact of these trends on income and the fund balance (working capital).
- We formulated strategies to ensure that Covered California maintains a reasonable participation fee rate while also retaining adequate working capital throughout the forecast range.
- We performed sensitivity analyses to understand the financial implications of alternative scenarios and be able to adjust our strategy accordingly.

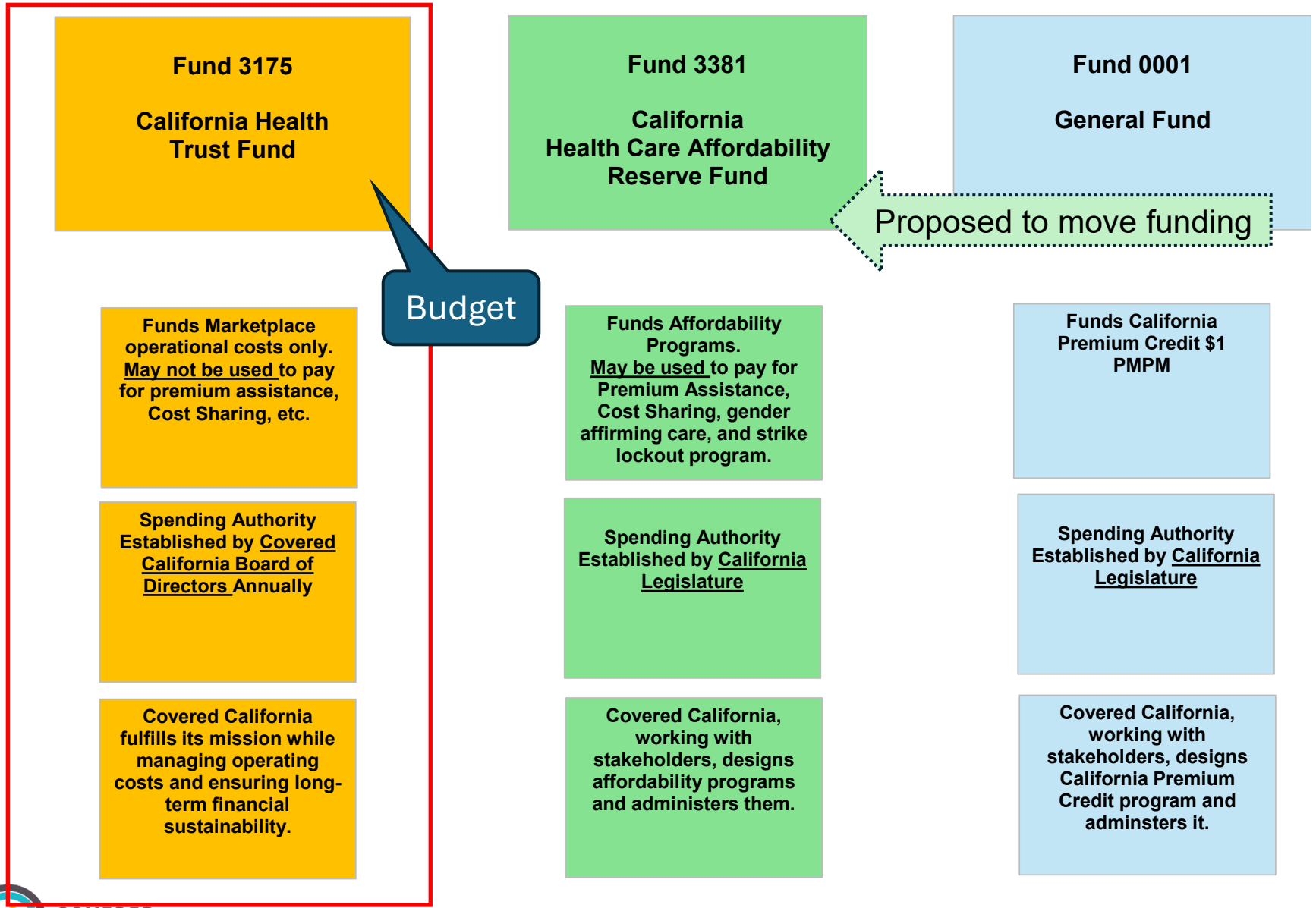
# HIGHLIGHTS OF THE FY 2026-27 PROPOSED BUDGET

## Proposed Budget Recommendations

- Recommend that the participation fee rate for the individual market be reduced from 2.5% to 1.0% for the plan year 2027
- Recommend that the participation fee rate for Covered California for Small Business be reduced from 4.75% to 4.25% in plan year 2027
- Recommend an operating and capital expenditures budget of \$481.2 million, which is 3.0% less than the FY 2025-26 budget of \$496.1 million.

# Background

# FUND ACCOUNTING AND THE ASSOCIATED PROGRAMS



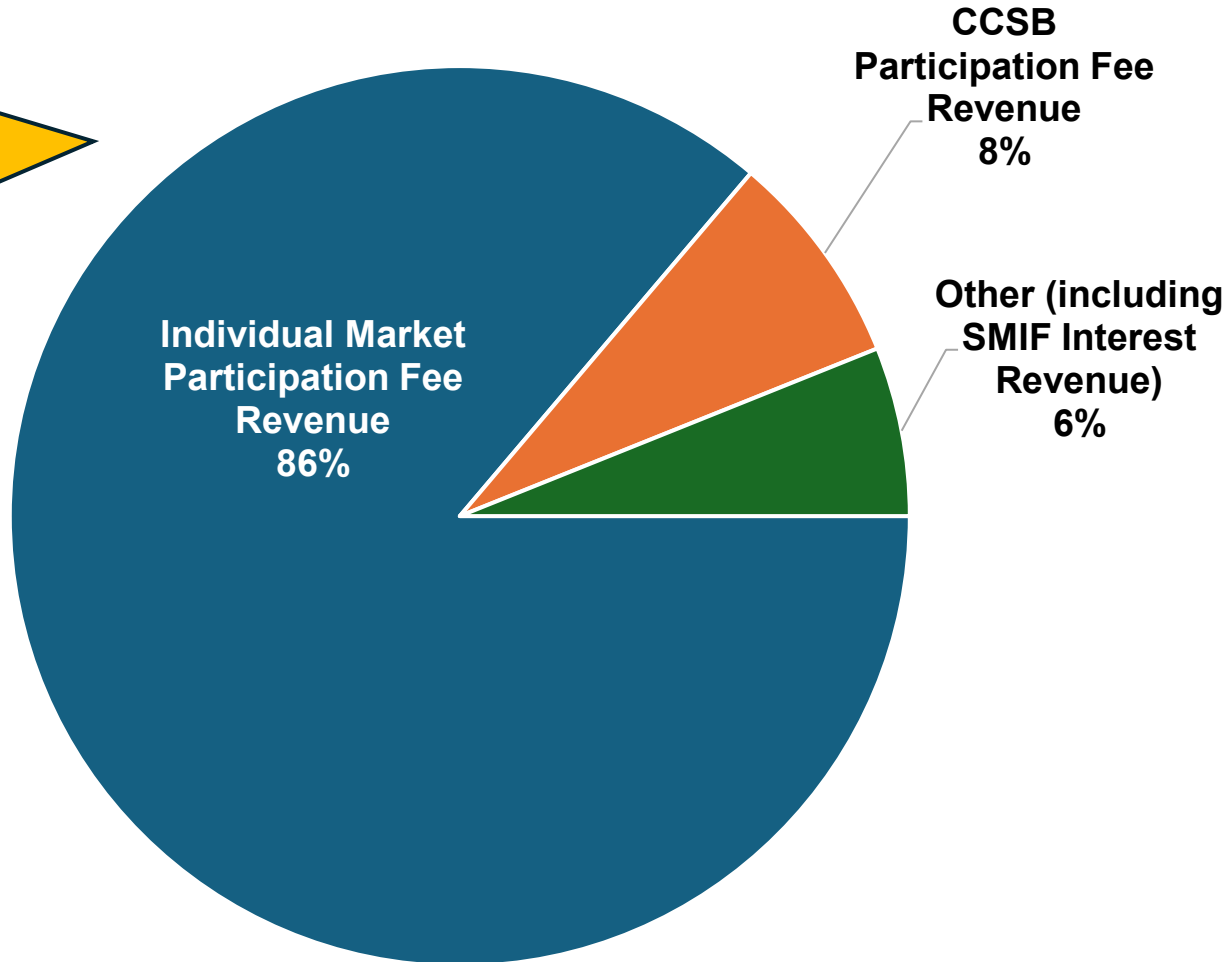
Government accounting utilizes fund accounting to manage its various programs.

Within the Covered California marketplace, several program initiatives are administered, including:

- Operating the marketplace and tracking all related revenues and expenditures. This is managed through the California Health Trust Fund (Fund 3175), and these funds cannot be used to pay for consumers' health care coverage.
- Designing and administering health care affordability programs in collaboration with stakeholders. This includes gender-affirming care and the strike lockout program, which are accounted for in the California Health Affordability Reserve Fund (Fund 3381).
- Developing and administering the California Premium Credit program, which currently costs \$1 per member per month (PMPM). This program is currently funded by the state's general fund, but a proposal is to shift its funding to the California Health Care Affordability Reserve Fund.

## WHERE DOES COVERED CALIFORNIA OBTAIN ITS FUNDS FOR OPERATIONS?

Participation Fee generates roughly 94% of all revenue.

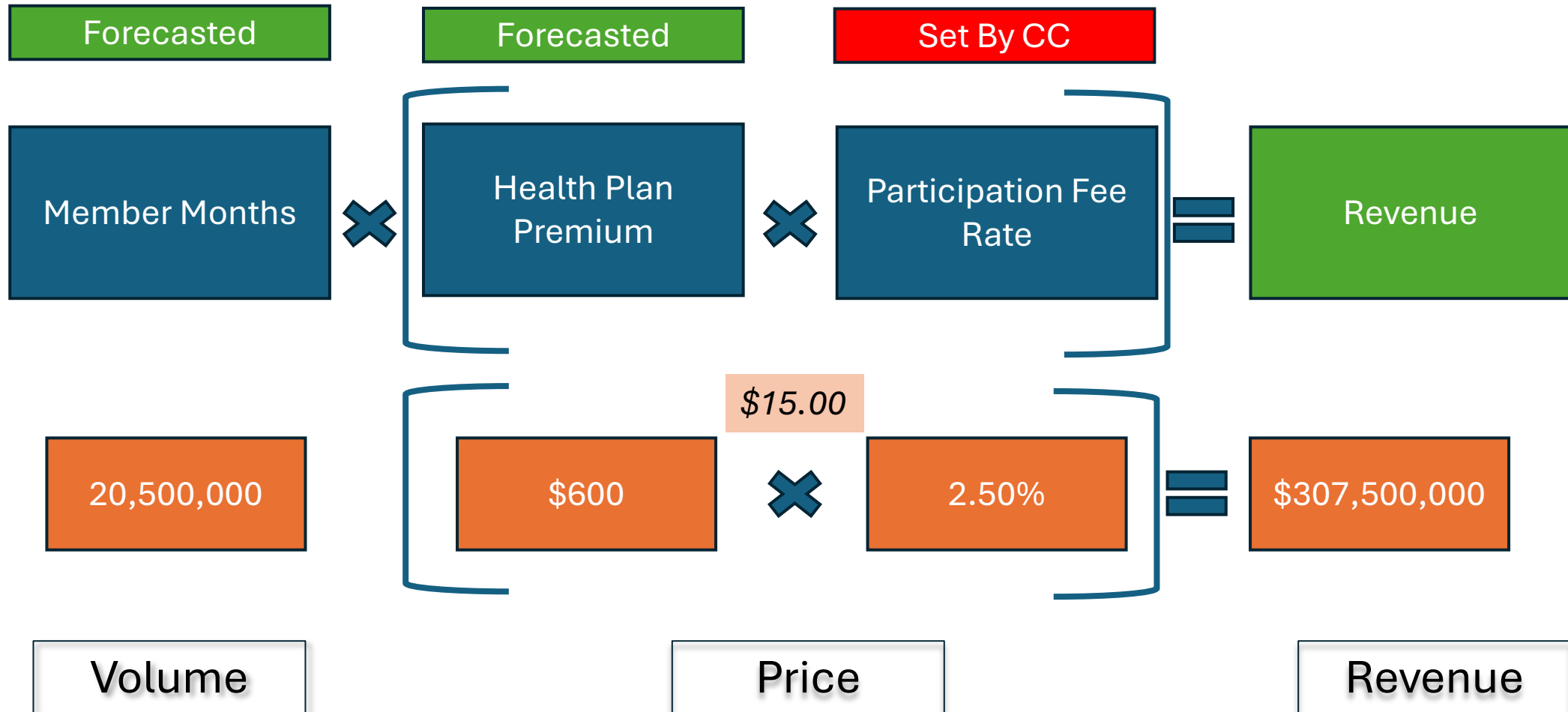


Covered California generates its operational revenues through charging a participation fee to participating carriers. This includes both the individual market and the Covered California for Small Business (CCSB) program.

Roughly 86% of total revenues come from the individual market participation fee rate and 8% from the CCSB participation fee rate. These two categories combine for 94% of Covered California's total revenues.

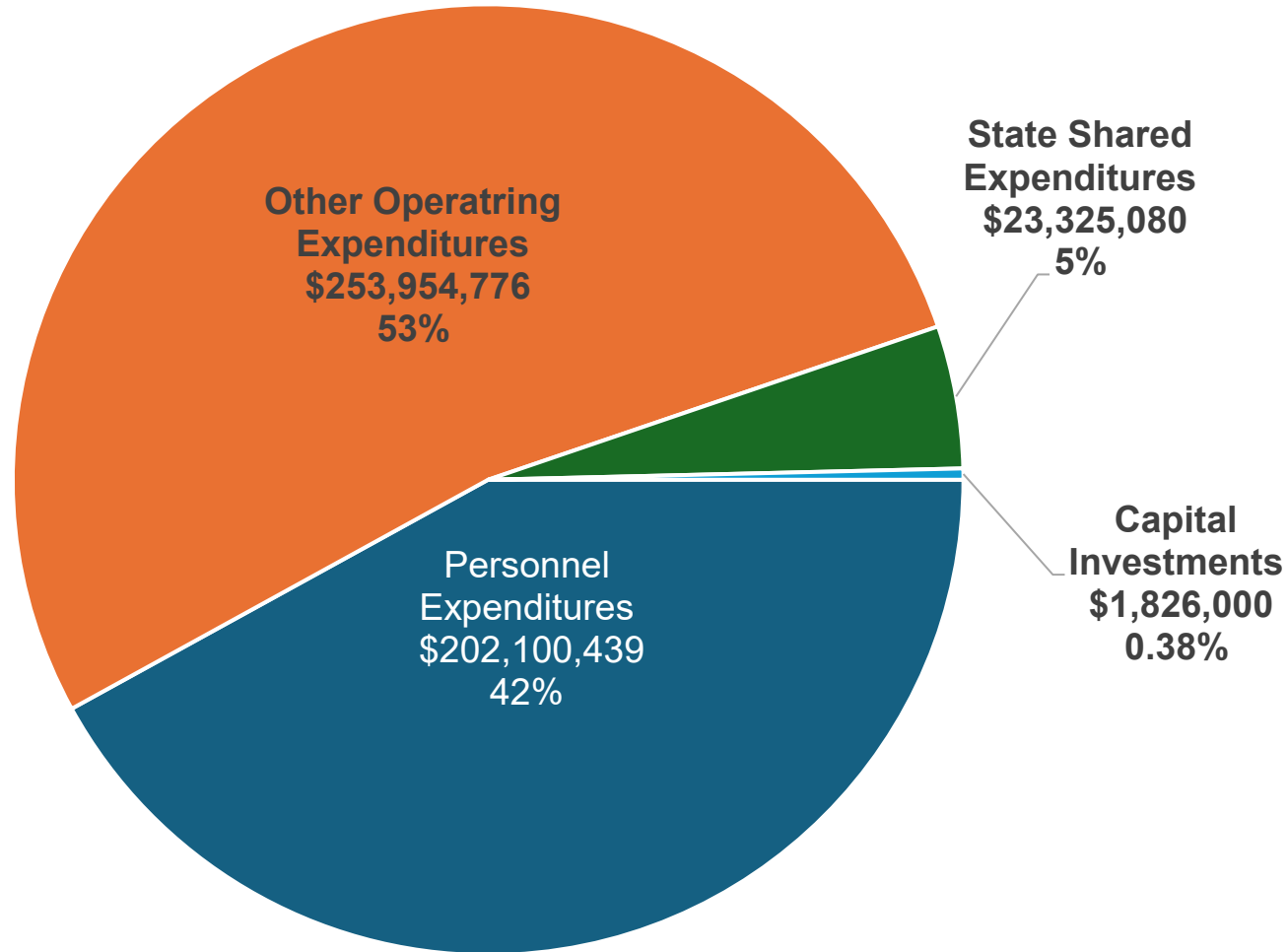
Other revenues include state surplus money investment returns, or interest revenue. They generate roughly 6% of total revenues. Due to the higher return rates and the principal balance invested, Covered California receives roughly \$25 million to \$27 million annually from this source.

# PARTICIPATION FEE REVENUE FORMULA



# WHERE DOES COVERED CALIFORNIA SPEND ITS FUNDS?

*FY 2026-27 Proposed Budget*



Approximately 42% of Covered California's operating expenditures are related to personnel costs. Overall, operating expenditures—which encompass service contracts, lease payments, software licenses, and more—make up about 53% of the total.

State shared expenditures allocated to Covered California account for 5% of total expenditures, while capital investments represent roughly 0.38%. These capital costs are associated with leasehold improvements and IT refreshment expenses.

# Enrollment Forecast

# ENROLLMENT FORECAST

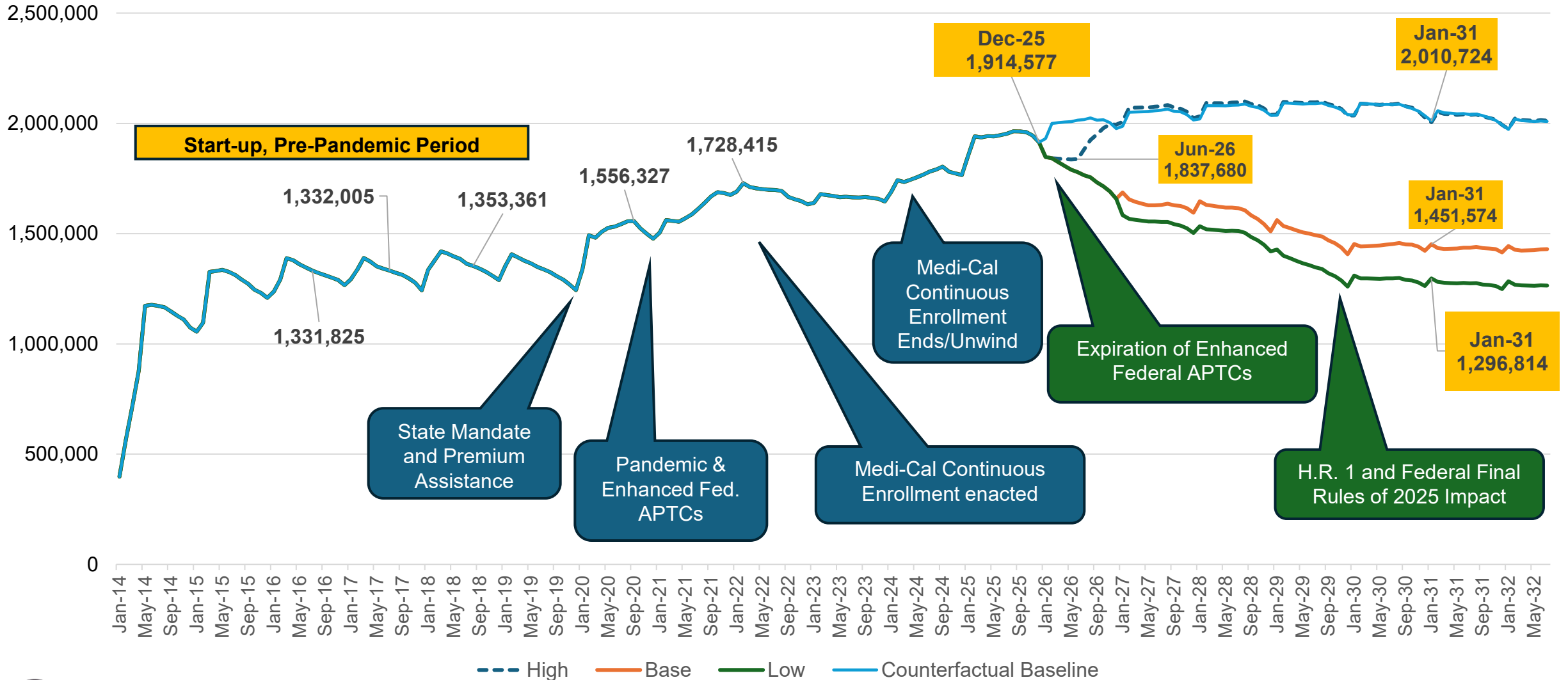
<p><b>Counterfactual "As Is"</b></p>	<p>Assumes that the enhanced federal APTCs do not expire, H.R. 1 and the Final Federal Rules adopted in 2025 are not implemented.</p>	<p>Labor market assumptions, Macroeconomic condition assumptions, and Medi-Cal transition assumptions apply.</p>
<p><b>High "Sensitivity Analysis"</b></p>	<p>Assumes that the enhanced federal APTCs are reinstated in July, 6 month return to trend. H.R. 1 and Final Federal Rules adopted in 2025 are not implemented.</p>	<p>Labor market assumptions, Macroeconomic condition assumption, and Medi-Cal transition assumptions apply.</p>
<p><b>Base "Budget Forecast"</b></p>	<p>Assumes that the enhanced federal APTCs expire, H.R.1 and Federal Final Rules adopted in 2025 are implemented.</p>	<p>Labor market assumptions, Macroeconomic condition assumptions, and Medi-Cal transition assumptions apply.</p>
<p><b>Low "Sensitivity Analysis"</b></p>	<p>Assumes that the federal enhanced subsidies expires, H.R. 1 and Federal Final Rules adopted in 2025 are implemented.</p>	<p>Labor market assumptions, Macroeconomic conditions, and Medi-Cal transitions assumptions apply.</p>

Each budget year, FMD develops a range of enrollment forecasts: **High, Base, and Low**. For this year's forecasting exercise, FMD first established a counterfactual baseline that assumes no policy changes and projects enrollment under current trends.

From that baseline, FMD developed three forecast scenarios:

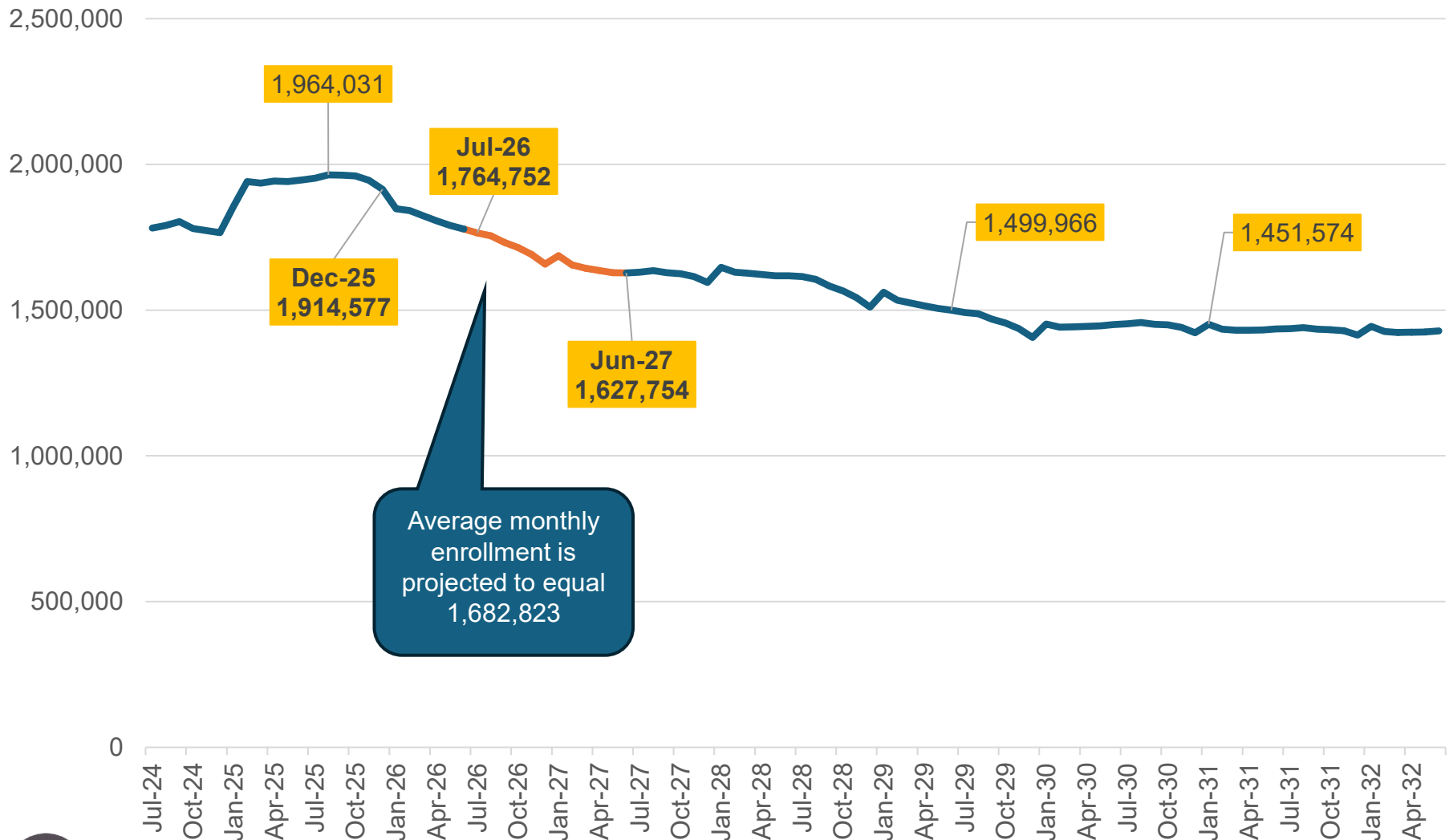
- **High forecast:** Assumes the enhanced federal APTCs expire but are reinstated in July 2026, with enrollment recovering gradually over six months as consumers regain coverage. This scenario also assumes that H.R. 1 and the 2025 federal final rules are not adopted and therefore do not affect enrollment.
- **Base forecast:** Assumes the enhanced federal APTCs expire, the provisions of H.R. 1 are implemented, and the 2025 federal final rules take effect. Under this scenario, enrollment declines steadily throughout the forecast period.
- **Low forecast:** Assumes consumers respond more strongly to the federal policy changes, leading to larger enrollment declines across the forecast period.

# ACTUAL AND FORECAST ENROLLMENT TRENDS



# BASE- ENROLLMENT TREND OVER THE FORECAST RANGE

Base - Medical Enrollment Trend



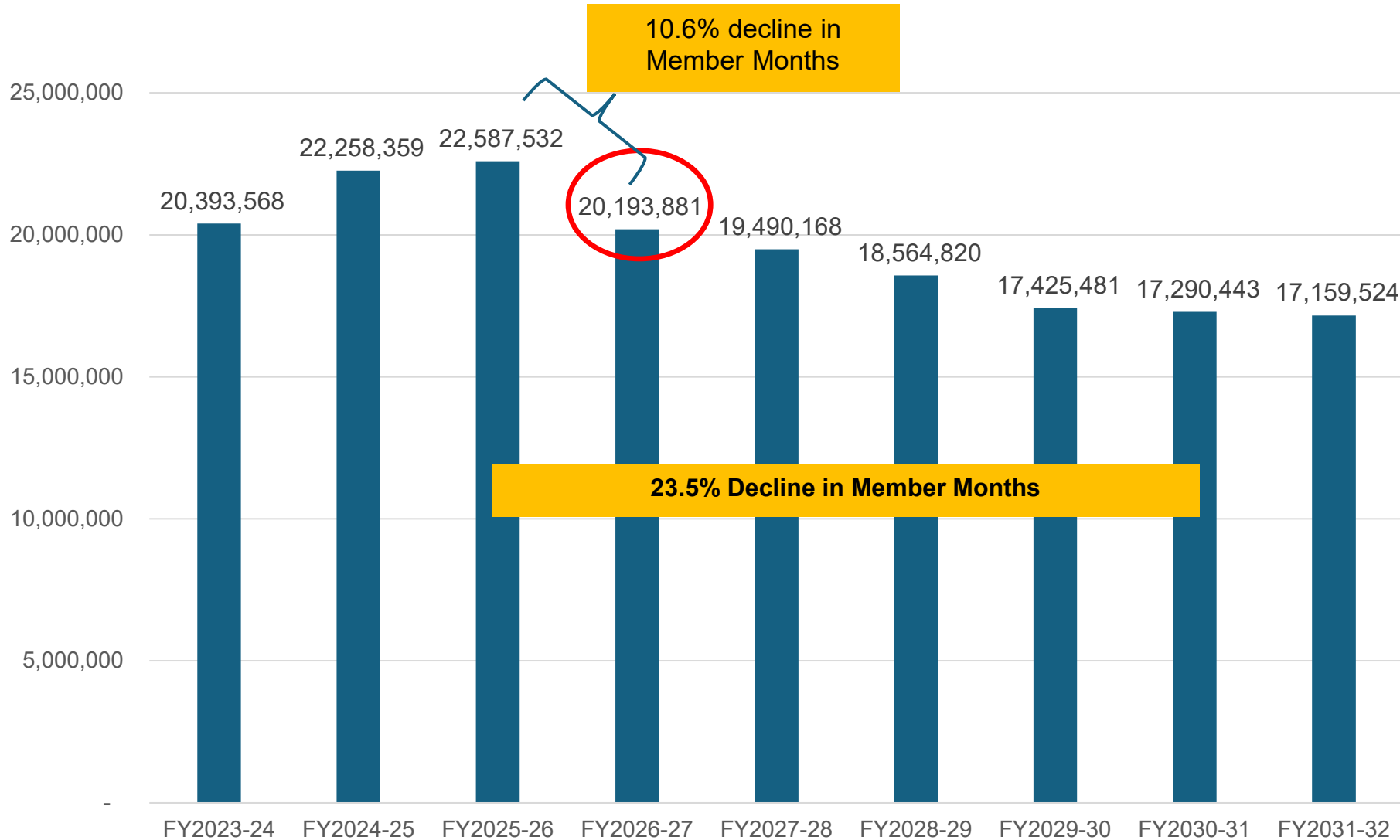
Average monthly enrollment is projected to equal 1,682,823

Enrollment in Covered California is expected to decrease over the forecast period, falling from a peak of 1.964 million in August 2025 to 1.451 million by January 2031.

This decline in enrollment is attributed to the expiration of federal enhanced APTCs, changes under H.R. 1, and modifications to the 2025 Federal Final Rule.

During the fiscal year 2026-27, Covered California anticipates a decline in enrollment from 1.764 million in July 2026 to 1.627 million in June 2027.

# BASE- FY MEMBER MONTH TREND OVER THE FORECAST RANGE

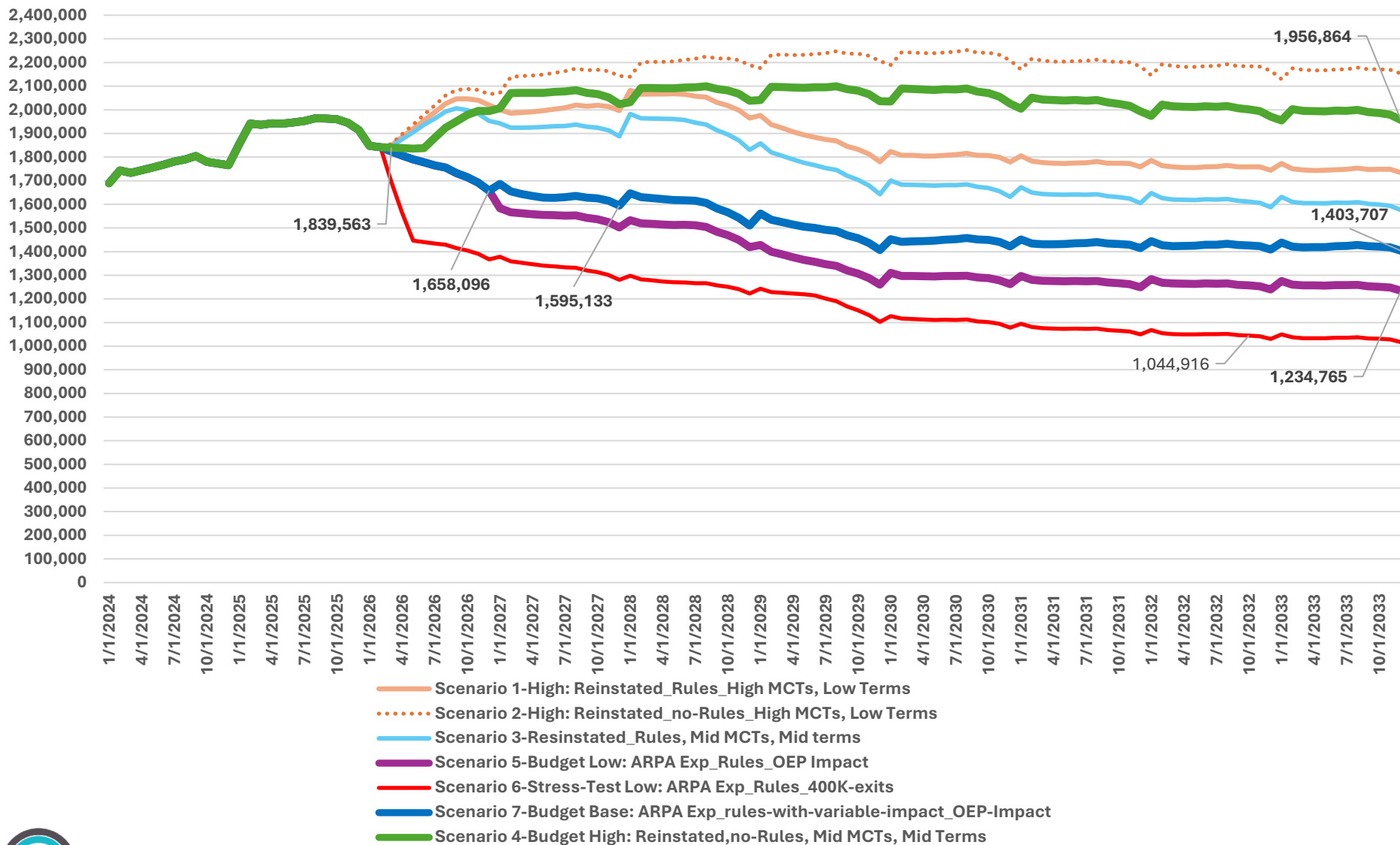


Member months, which represent one of three factors for determining Covered California’s participation fee revenue, are forecasted to decline by 10.6% between FY 2025-26 and FY 2026-27. Total member months are projected to decline from the FY 2025-26 peak of 22,587,532 to 17,290,443 by FY 2030-31, representing a 23.5% decrease.

This FY 2026-27 budget-year decline results from the expiration of the federal enhanced subsidies on December 31, 2025.

Throughout the remainder of the forecast range, member months will continue to decline as the effects of H.R. 1 and the 2025 Federal Final Rule change are implemented

# INHERENT UNCERTAINTY

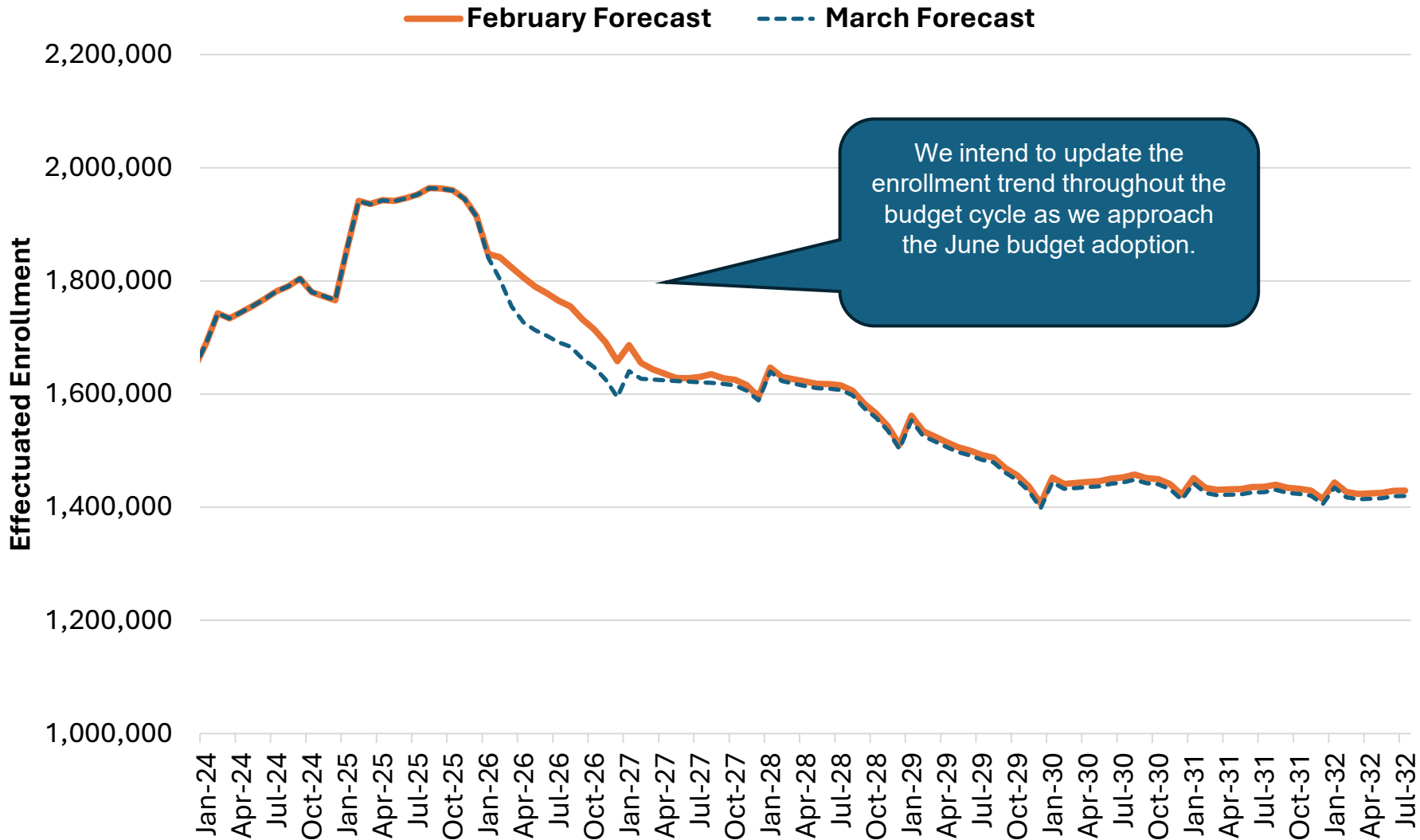


As with all forecasts, there is uncertainty.

Several factors may cause actual enrollment to differ from the projected enrollment. These factors include:

- The reinstatement of enhanced federal subsidies,
- Actual individual responses to price changes that may differ from the modeled assumptions,
- Variations in macroeconomic and labor market conditions compared to the forecasted assumptions, and
- The forecast assumes that current laws will remain in effect. Policy changes due to political transitions may lead to enrollment outcomes that differ from projections as the long-term trend progresses.

# ENROLLMENT TRENDS-ROLLING FORECAST UPDATES



Covered California updates its enrollment forecast monthly as new data is accumulated.

In this process, actual data will replace forecasted amounts, and we may update our assumptions going forward.

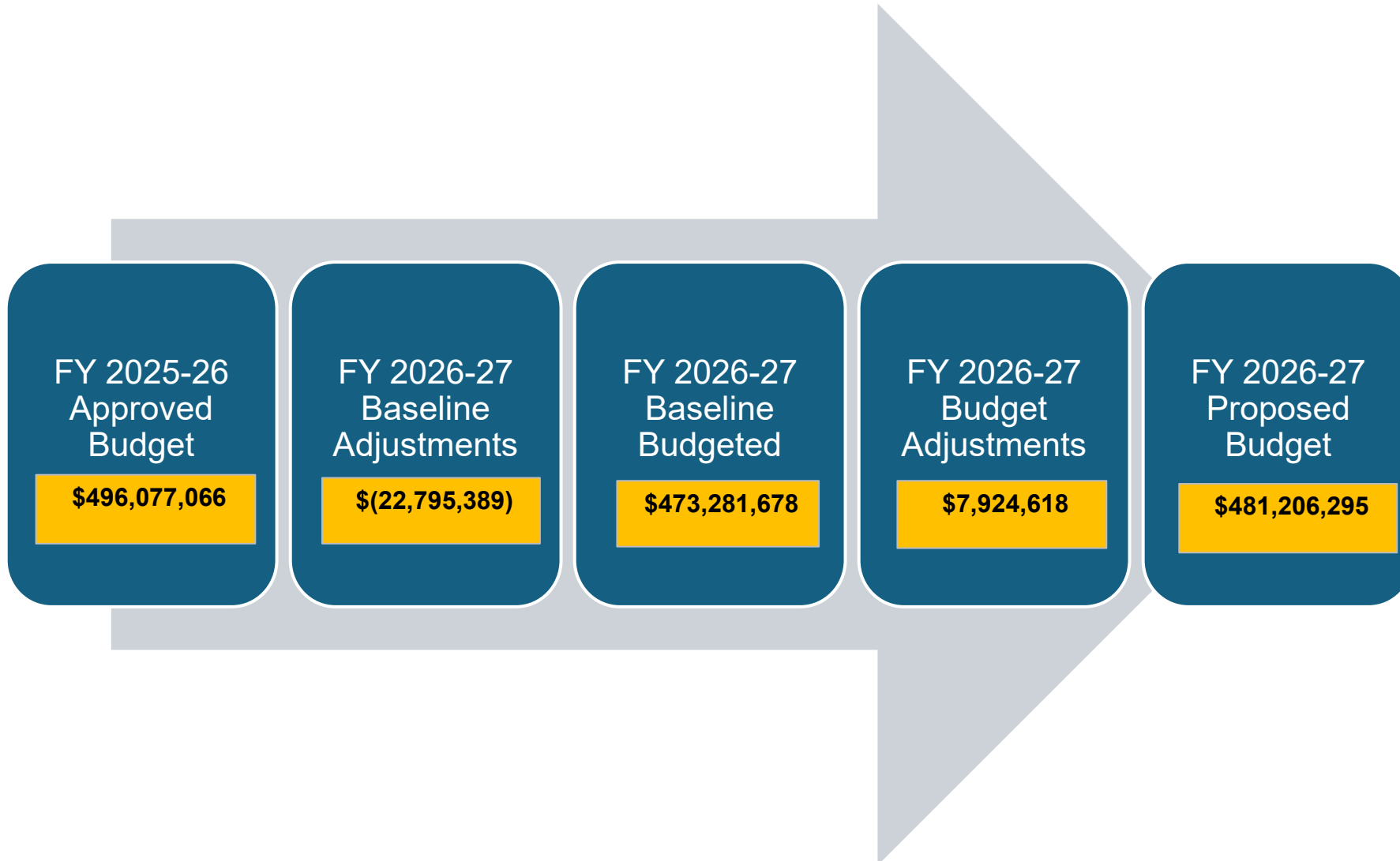
In this case, the February 2026 forecast is compared to the March 2026 forecast. The data indicated that enrollment losses are greater than originally forecast.

The trends show that the forecasted enrollment losses align with actual results; however, their timing varies.

Covered California will update the enrollment and revenue forecast prior to the June 2026 budget presentation and identify any material changes.

# FY 2026-27 Proposed Budget

# FY 2026-27 PROPOSED BUDGET



Covered California's proposed budget for FY 2026-27 totals \$481.2 million, which is \$14.9 million less than the approved budget of \$496.1 million for FY 2025-26.

In the FY 2026-27 budget cycle, Covered California has shifted to a strategic budgeting approach that better aligns with its status as an enterprise fund. Previously, Covered California used an incremental budgeting method, which often led to budget slack—a common issue with that approach.

For FY 2026-27, Covered California has conducted a thorough review of its budget processes and has challenged each of its 19 divisions to critically assess their budgets and cost drivers. Covered California aims to adopt a strategic budgeting approach centered on cost optimization, moving away from traditional cost-cutting and incremental improvements.

The emphasis is now on creating broader efficiencies across the organization. This involves freeing up resources (capital, equipment, or people) to redeploy them and propel the organization toward a more efficient, resilient, and prosperous future.

# FY 2026-27 PROPOSED BUDGET

	Fiscal Year 2025-26	Fiscal Year 2026-27	Fiscal Year 2026-27	Fiscal Year 2026-27	Fiscal Year 2026-27	% Change
	Approved Budget	Baseline Adjustments	Baseline Budget	Budget Changes	Proposed Budget	FY 2025-26 vs. FY 2026-27
<b>Positions</b>	1506	0	1506	0	1506	0
<b>Operating Expenditures</b>						
Personnel Expenditures	\$ 204,324,952	\$ (2,627,636)	\$ 201,697,317	\$ 403,123	\$ 202,100,439	-1.1%
Other Operating Expenditures	\$ 266,258,644	\$ (19,825,363)	\$ 246,433,281	\$ 7,521,495	\$ 253,954,776	-4.6%
<b>Subtotal</b>	<b>\$ 470,583,596</b>	<b>\$ (22,452,999)</b>	<b>\$ 448,130,598</b>	<b>\$ 7,924,618</b>	<b>\$ 456,055,215</b>	<b>-3.1%</b>
<b>Allocated Expenditures</b>						
Prorata/Supp. Pension/Other	\$ 18,667,470	\$ 4,657,610	\$ 23,325,080	\$ -	\$ 23,325,080	25.0%
<b>Total Operating Expenditures</b>	<b>\$ 489,251,066</b>	<b>\$ (17,795,389)</b>	<b>\$ 471,455,678</b>	<b>\$ 7,924,618</b>	<b>\$ 479,380,295</b>	<b>-2.0%</b>
<b>Capital Investments</b>						
Capital	\$ 6,826,000	\$ (5,000,000)	\$ 1,826,000	\$ -	\$ 1,826,000	-73.2%
<b>Total - Capital Project Expenditures</b>	<b>\$ 6,826,000</b>	<b>\$ (5,000,000)</b>	<b>\$ 1,826,000</b>	<b>\$ -</b>	<b>\$ 1,826,000</b>	<b>-73.2%</b>
<b>Total Budgeted Expenditures</b>	<b>\$ 496,077,066</b>	<b>\$ (22,795,389)</b>	<b>\$ 473,281,678</b>	<b>\$ 7,924,618</b>	<b>\$ 481,206,295</b>	<b>-3.0%</b>

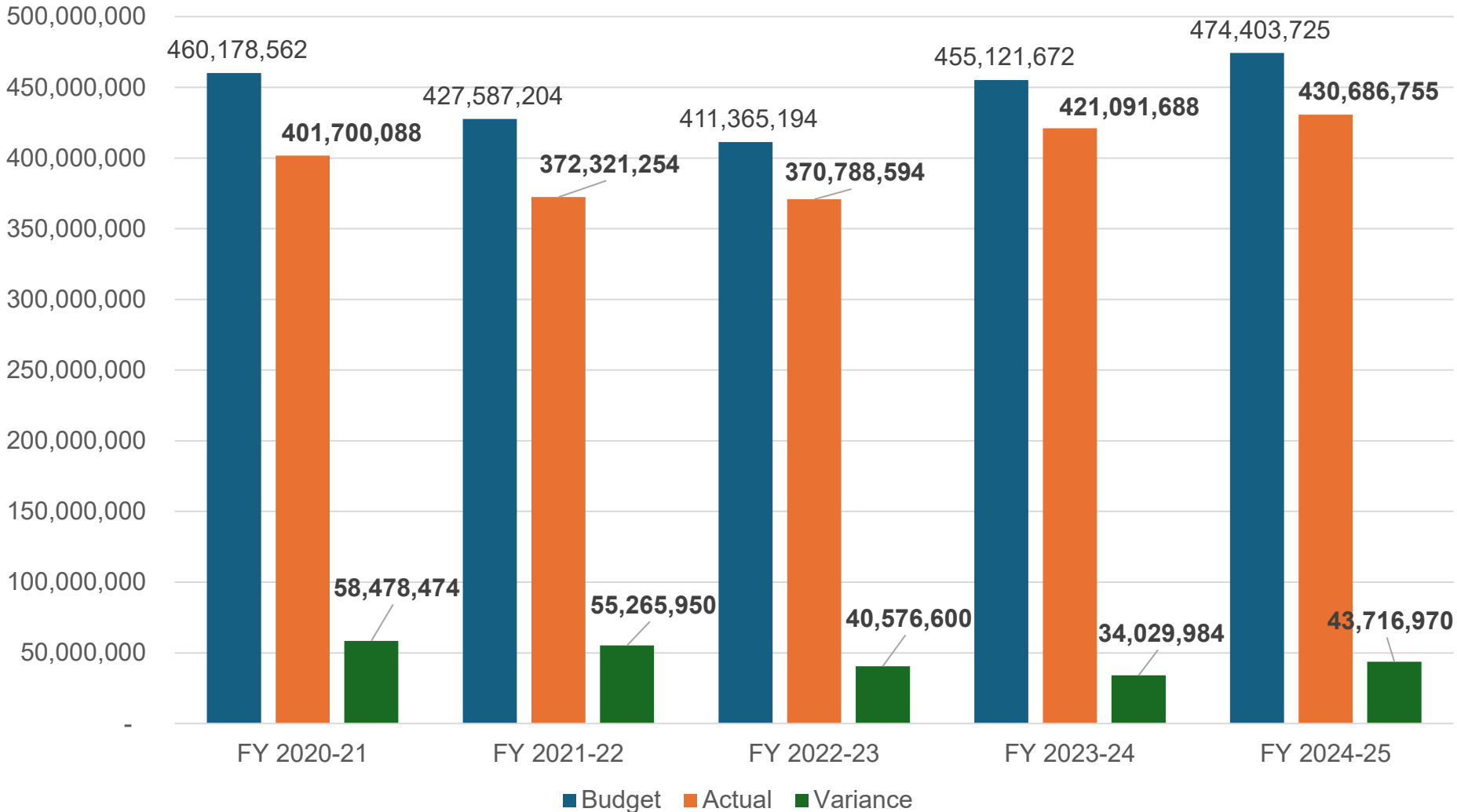
# FY 2026-27 BUDGET AUGMENTATIONS

Request	Amount
<p><b>Policy Eligibility and Research</b> requested \$4.0 million in funding for the competitive procurement of the Health Evidence Initiative database. It is assumed there will be an overlap, as the contract may be transferred to a new vendor with both vendors operating simultaneously for a period. Therefore, they have requested additional funding for FY 2026-27.</p>	\$4,000,000
<p><b>Communications</b> requested \$1.2 million in additional funding for public relations. The public relations contract was amended, and the Board approved an increase in funding totaling \$1.2 million in August 2024, but the revised contract value was not budgeted in FY 2025-26; therefore, it was added to the FY 2026-27 proposed budget.</p>	\$1,200,000
<p><b>Executive Office</b> requested \$500,000 for strategic planning that will occur throughout FY 2026-27.</p>	\$500,000
<p><b>Marketing</b> requested \$225,000 in additional funding to support advertising efficacy analysis. The additional funding will enable the Marketing Division to adjust spending effectively by audience and channel, provide robust data on recommended marketing spend, and enhance overall efficiency and impact.</p>	\$225,000

# FY 2026-27 BUDGET AUGMENTATIONS

Request	Amount
<p><b>Data &amp; Insights Office</b> requested \$974,753 to establish the office. The Data &amp; Insights Office will design and implement Covered California’s enterprise data strategy and governance capabilities.</p> <p>The request includes \$571,630 for training, travel, and other operating expenditures. Additionally, 8 staff were transferred from other Covered California Divisions to establish the Office. These positions were reclassified into higher-paying research and information technology classifications, which will increase salaries and benefit expenditures by \$403,123.</p>	<p>\$974,753</p>
<p><b>Service Center</b> requested \$679,140 in funding to support the increased cost of conducting hearings and the adjudication process for individual market consumers.</p>	<p>\$679,140</p>
<p><b>Outreach and Sales</b> requested \$180,725 in additional funding to transition to a new vendor.</p> <p>Additionally, \$75,000 in funding is requested to integrate connectivity with benefit platforms for CCSB’s key insurance agents and general agents.</p>	<p>\$255,725</p>
<p><b>Office of Legal Affairs</b> requested \$90,000 for pre-litigation software.</p>	<p>\$90,000</p>
<p><b>Total Budget Augmentation</b></p>	<p><b>\$7,924,618</b></p>

# BUDGETED EXPENDITURES VS. ACTUAL EXPENDITURES



Throughout Covered California's history, it has recognized favorable budget variances. That is, it has budgeted more than it incurs in expenditures throughout the fiscal year.

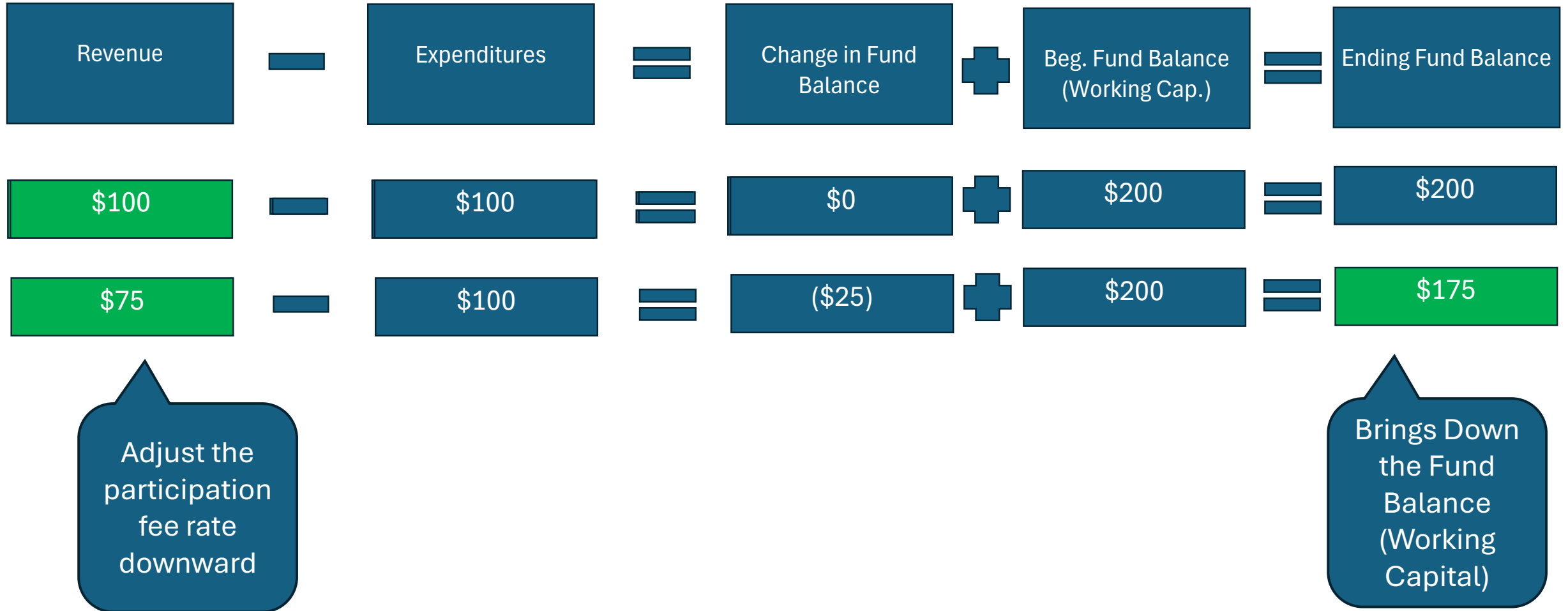
This results from several factors. Because the budget was prepared using an incremental approach, it did not critically examine its baseline budget year-over-year. This led to the accumulation of budget slack over time, which is not uncommon. In addition, because many of the efforts were new endeavors, initial budget estimates often overestimated the effort's costs. Also, changing priorities driven by an uncertain environment also contributed to the outcomes. Specific plans throughout the fiscal year were interrupted, and new priorities materialized.

In turn, the estimated cost of delivering marketplace services tended to be overstated year to year in budgetary terms.

# Long-Term Financial Forecast

**Base Financial Forecast**  
**Low Financial Forecast**  
**High Financial Forecast**

# MANAGING WORKING CAPITAL OVER THE FORECAST RANGE



# BASE LONG-TERM FISCAL FORECAST ASSUMPTIONS

The individual market participation fee rate is reduced to 1.0% for the plan year 2027. It will then increase to 2.5% in the rate year 2028, remaining at that level for the rest of the forecast period. The CCSB participation fee rate will be reduced from 4.75% to 4.25% in plan year 2027 and will remain at 4.25% throughout the forecast range.

Premiums in the individual market will grow by 7.0% throughout the forecast range. For the CCSB market, it is assumed that premiums will grow at 7.5% in rate year 2027 and 6% throughout the remainder of the forecast range.

Overall, operating and capital expenditures will grow at 3.2% year-over-year, which aligns with the growth rates in the governor's budget for the consumer price index and the employment cost index.

It is assumed that Covered California will hold and budget a steady 5.0% vacancy rate and will not add additional positions throughout the forecast range.

The State Surplus Money Investment Fund (SMIF) yield rate is expected to remain at roughly 3.0% throughout the forecast range.

	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Fiscal Year	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 31-32	
Calendar Year	2026	2027	2028	2029	2030	2031	2032
Premium Growth-Indiv Mkt	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Participation Fee Rate-Indiv Mkt	2.50%	1.00%	2.50%	2.50%	2.50%	2.50%	2.50%
Premium Growth-CCSB	6.00%	7.50%	6.00%	6.00%	6.00%	6.00%	6.00%
Participation Fee Rate-CCSB	4.75%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Personnel Expenditures	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	
Vacancy Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
Personnel Count Change	0	0	0	0	0	0	
Other Operating Expenditures	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	
State Shared	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%	
SMIF	3.50%	3.00%	3.00%	3.00%	3.00%	3.00%	

## BASE FINANCIAL FORECAST OUTCOMES OVER THE FORECAST RANGE

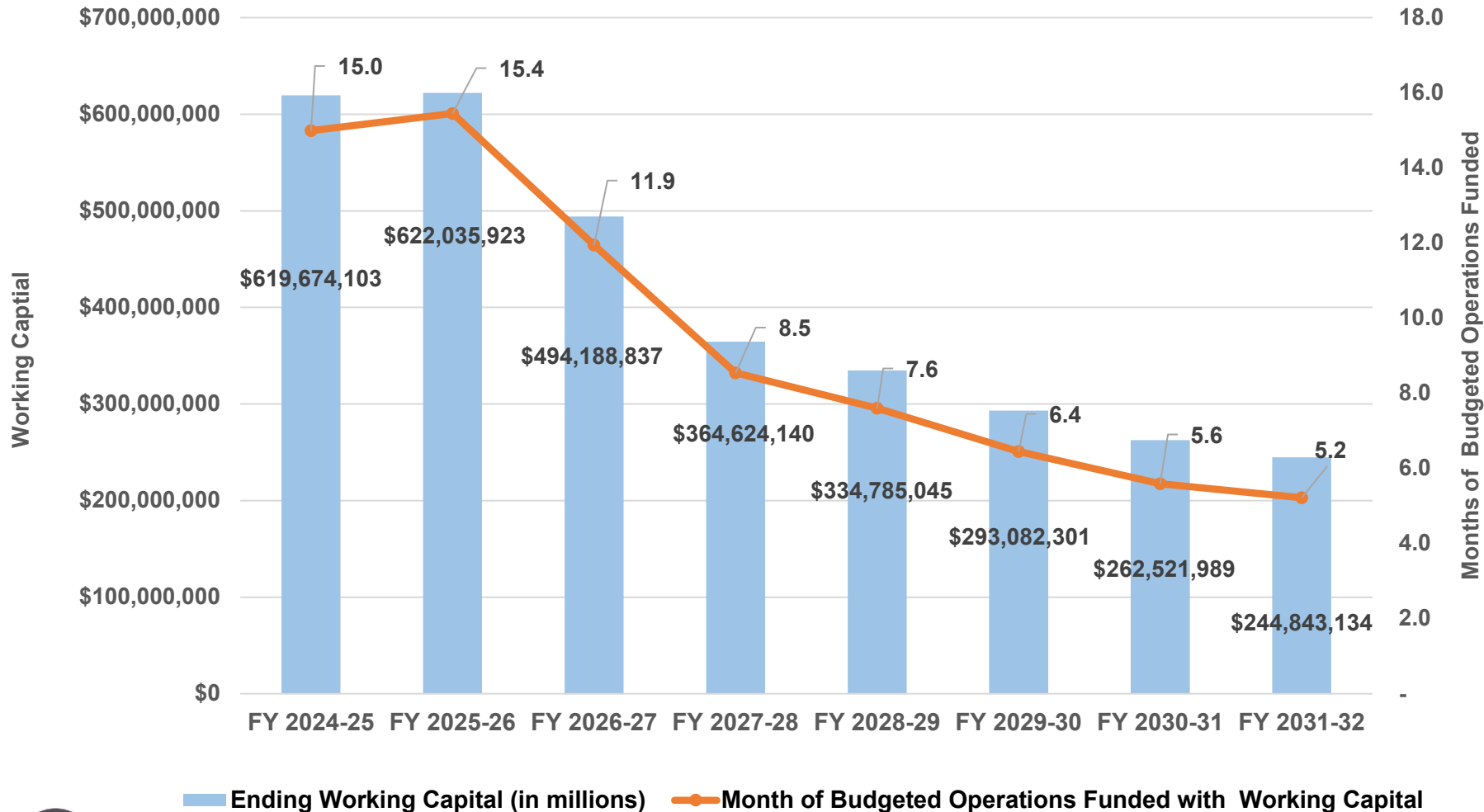
	<b>Actual/ Forecasted</b>	<b>Forecasted</b>	<b>Forecasted</b>	<b>Forecasted</b>	<b>Forecasted</b>	<b>Forecasted</b>	<b>Forecasted</b>
	<b><u>FY 2025-26</u></b>	<b><u>FY 2026-27</u></b>	<b><u>FY 2027-28</u></b>	<b><u>FY 2028-29</u></b>	<b><u>FY 2029-30</u></b>	<b><u>FY 2030-31</u></b>	<b><u>FY 2031-32</u></b>
<b>Beginning Fund Balance At July 1</b>	\$ 619,674,103	\$ 622,035,923	\$ 494,188,837	\$ 364,624,140	\$ 334,785,045	\$ 293,082,301	\$ 262,521,989
<b>Adjusted Beg. Fund Balance</b>	\$ 619,674,103	\$ 622,035,923	\$ 494,188,837	\$ 364,624,140	\$ 334,785,045	\$ 293,082,301	\$ 262,521,989
Additions	\$ 444,601,580	\$ 328,544,346	\$ 341,431,262	\$ 456,228,733	\$ 459,919,256	\$ 487,113,591	\$ 516,560,614
Deductions	\$ (442,239,760)	\$ (456,391,432)	\$ (470,995,958)	\$ (486,067,829)	\$ (501,621,999)	\$ (517,673,903)	\$ (534,239,468)
Increase / Decrease in Fund From Operations	\$ 2,361,820	\$ (127,847,087)	\$ (129,564,696)	\$ (29,839,096)	\$ (41,702,744)	\$ (30,560,312)	\$ (17,678,855)
<b>Ending Fund Balance At June 30 (Working Capital)</b>	\$ 622,035,923	\$ 494,188,837	\$ 364,624,140	\$ 334,785,045	\$ 293,082,301	\$ 262,521,989	\$ 244,843,134
<b>Unrestricted Working Capital/Fund Balance</b>	<b>\$ 622,035,923</b>	<b>\$ 494,188,837</b>	<b>\$ 364,624,140</b>	<b>\$ 334,785,045</b>	<b>\$ 293,082,301</b>	<b>\$ 262,521,989</b>	<b>\$ 244,843,134</b>

Under the Base Financial projection, Covered California's revenue inflows will decline in FY 2026-27 and FY 2027-28. This results from lowering the individual market participation fee from its current 2.5% to 1.0%. In addition, the CCSB participation fee rate is also lowered from 4.75% to 4.25%. This strategy is designed to bring Covered California's working capital down to an appropriate level.

Covered California's working capital will decline throughout the forecast range, falling from \$622.0 million in FY 2025-26 to \$244.8 million in FY 2031-32. Readers should note that these projections will be continuously revised, with a full revision occurring during each budget cycle. Covered California performs a long-term fiscal sustainability refresh during each budget cycle.

# BASE FINANCIAL FORECAST: WORKING CAPITAL AND MONTH OF BUDGETED OPERATIONS FUNDED

Working Capital/Months of Budgeted Operations Funded



In the Base financial forecast, Covered California's working capital is projected to support approximately 11.9 months of budgeted operations by the end of FY 2026-27. This results from lowering the individual market participation fee rate to 1.0% and the CCSB rate to 4.25% in plan year 2027.

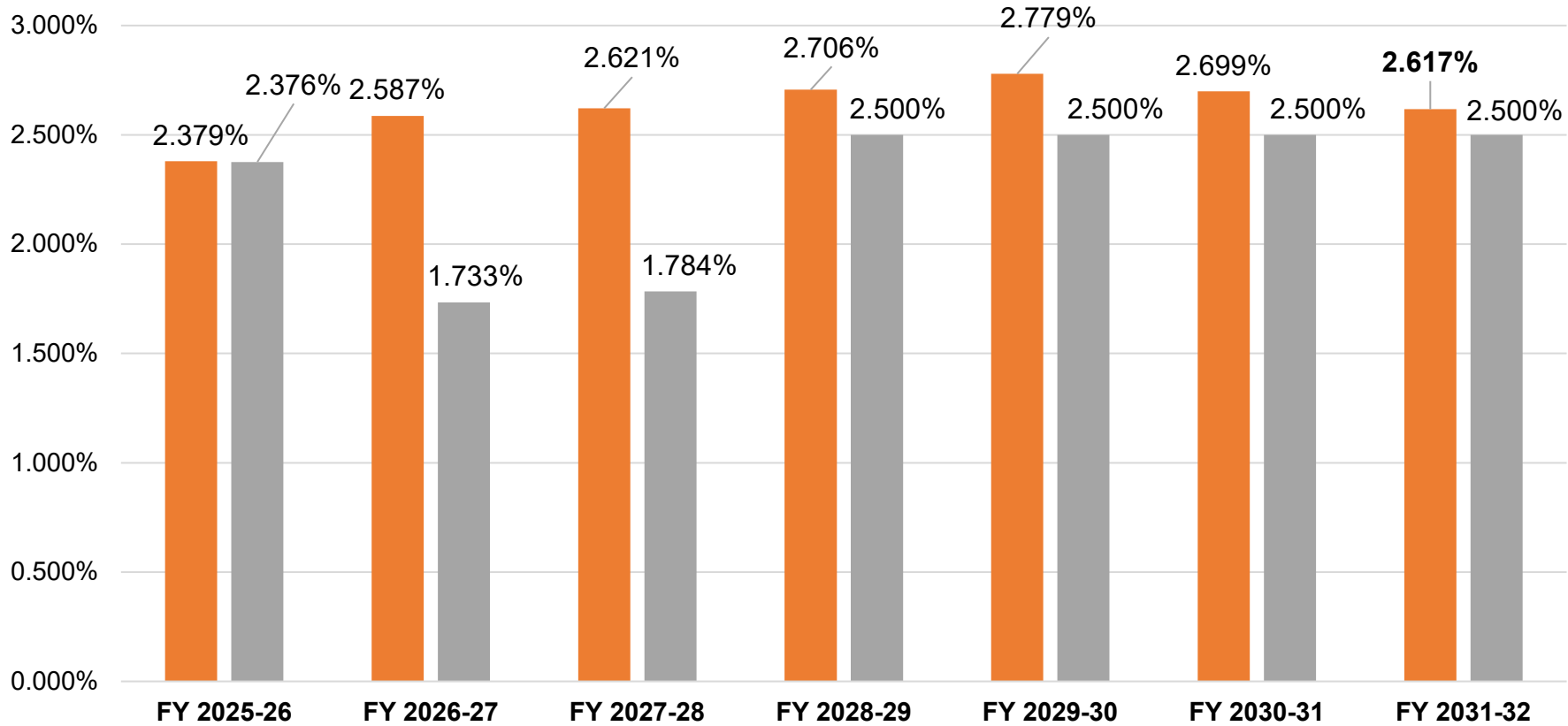
Over the forecast period, the working capital continues to decline, dropping to \$244.8 million by FY 2031-32. The \$244.8 million is forecasted to finance roughly 5.2 months of budgeted operations.

Because the participation fee rate is held at 2.5% between rate years 2029 and 2032, working capital continues to decline, as the 2.5% rate is below the breakeven rate of roughly 2.8%. It is anticipated that Covered California will increase the rate to breakeven once its working capital balance reaches its target level.

Again, the breakeven rate will settle at roughly 2.6% in the out years, assuming operating expenditure growth is held to a 3.2%. The 3.2% growth aligns with the CPI and ECI projections over the forecast range.

# BASE FINANCIAL FORECAST: BREAK-EVEN PARTICIPATION FEE RATE

Base-Break-Even Participation Fee Rate



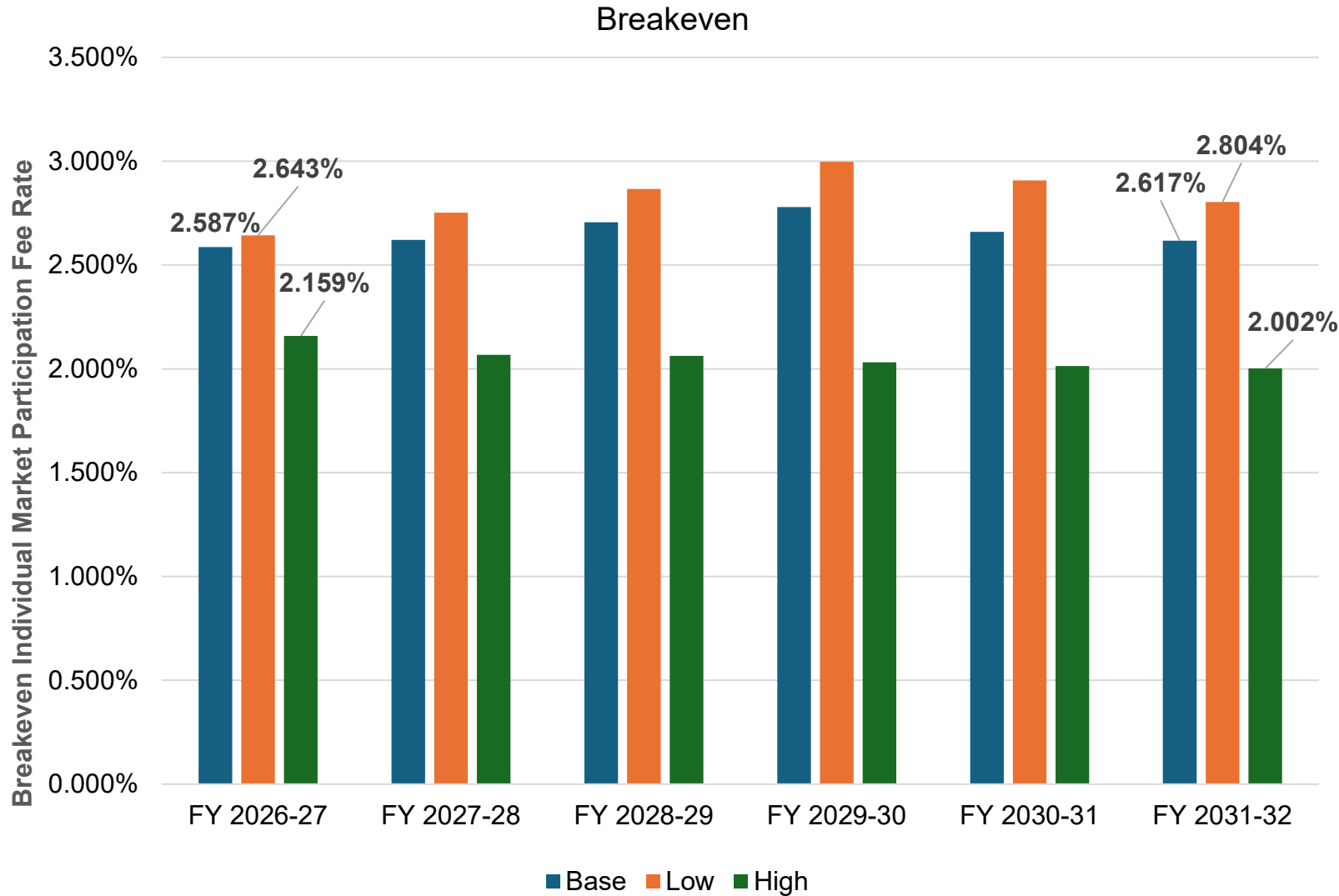
- Individual Market Break-Even Participation Fee, Assumes that CCSB Part. Fee Rate stays constant, With Non-Operating Income
- Participation Fee Rate (Actual)

The break-even participation fee rate is the rate that must be charged to generate sufficient revenue to cover both operating and capital expenditures.

In the Base Forecast for plan year 2027, we are reducing the individual market participation fee rate to 1.0% and the CCSB rate to 4.25%. As a result, the weighted average rate for fiscal year 2026-2027 will decrease to 1.733%. This trend continues into fiscal year 2027-2028, which is projected to have a weighted average participation fee rate of 1.784%.

By the end of the forecast period, the breakeven participation fee rate is expected to increase to 2.617%. This breakeven rate takes into account all revenue inflows and assumes that Covered California's operating costs will follow the modest year-over-year growth trajectory forecast.

# BREAKEVEN PARTICIPATION FEE RATE OVER THE FORECAST RANGE



Covered California's long-term fiscal sustainability analysis evaluates the breakeven participation fee rate over the forecast range.

The breakeven participation fee rate is the rate that Covered California must charge carriers to generate enough revenue to cover operating and capital costs. For this analysis, we must project operating and capital expenditures, operating revenues, and non-operating revenues.

This means that the following equation must be in equilibrium:

$$(Enrollment \times Premiums \times Part. Rate) = Operating expenditures + Capital Expenditures.$$

In this case, we are determining the participation fee rate to achieve breakeven (i.e., Revenues = Expenditures). Each of the financial forecasts—High, Base, and Low—makes specific assumptions about premium growth, enrollment, and the growth of operating and capital expenditures. While the growth rates for operating and capital expenditures remain consistent across all scenarios, the enrollment and premium growth rates vary. Consequently, the breakeven participation fee rate differs among the forecasts.

The High financial forecast results in a lower breakeven participation fee rate, as it assumes higher enrollment throughout the forecast period. In contrast, the Base financial forecast produces a slightly higher breakeven rate than the High forecast. This is because, although the enrollment volume is lower, it is somewhat balanced by higher premium growth, as the risk pool is assumed to be shrinking.

The Low enrollment forecast generates the highest breakeven participation fee rate, as it anticipates the most significant decline in enrollment volume.