CALIFORNIA

California faces unlikely tax revolt amid billions in illegal immigrant healthcare costs

The unlikely coalition argues the California governor's plan to offset Medi-Cal gaps would raise premiums $100 per person



By **Robert Schmad** · **Fox News**

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Health policy expert warns California's Medi-Cal spending crisis could drive up insurance costs for families

Paragon Health Institute President Brian Blase discusses California's Medicaid spending, eligibility concerns and the potential impact of higher taxes on privately insured families.

As California grapples with soaring Medi-Cal costs — including billions spent on healthcare for immigrants without legal status — Gov. Gavin Newsom and Democratic lawmakers have backed a revised health-plan tax in response to new federal restrictions, a move critics warn could shift more costs onto privately insured Californians.

The tax has united an unlikely coalition of doctors and health insurers against him, with critics

strong "yes."

DR. OZ UNVEILS MEDICAID OVERHAUL, CLAMPS DOWN ON $2B FOR ILLEGAL IMMIGRANTS AND MANDATES WORK FOR ABLE-BODIED



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immigrants in the state."

California's attempt to shore up Medi-Cal's bottom line follows federal changes that will prevent the state from continuing its existing health-plan tax structure after 2026, forcing a redesign of a financing mechanism that has generated billions of dollars for the program.

The California Medical Association and California Association of Health Plans are suing to block the tax increase, not on the grounds that it benefits illegal immigrants, but over allegations that the measure violates voter-approved limits on health-plan taxes and restrictions on how the resulting revenue can be spent. The duo uniting to challenge the tax is notable because doctors and insurance companies often find themselves on opposite sides of healthcare debates.

Proposition 35, the initiative in question, limits how much California can tax commercial health-plan enrollment, constraining the state's options as it tries to comply with new federal rules governing the much higher tax previously imposed on Medi-Cal enrollment. The proposition was passed with overwhelming support from Californian voters.

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The flag of the U.S. state California is seen in this illustration created on August 21, 2024. (Reuters)

"California voters passed Proposition 35 and made it law. The state does not get to ignore that law simply because following the law is inconvenient," California Medical Association CEO Dustin Corcoran said in a statement.

Health insurers warn the cost of the revised tax could be passed directly on to consumers through higher premiums, estimating an increase of about $100 per person per year. A family of four, for example, could face an additional $400 annually on top of normal rate increases.

Newsom spokeswoman Tara Gallegos said that the governor maintains that his tax increase is not rendered illegal by the proposition.

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"The state disagrees with their claims, and we believe the courts will too," she told Fox News Digital of the lawsuit.

H.D. Palmer, deputy director for external affairs at the California Department of Finance, explained to Fox News Digital that the new tax measure was designed to comply with the One Big Beautiful Bill Act. According to Palmer, the state's current health tax regime may conflict with the bill and that the state is submitting a proposal with two tracks — one that is similar to the current taxing scheme but might run afoul of federal law and another that conforms to the One Big Beautiful Bill Act by shifting costs toward private plans.

CALIFORNIANS FLEEING TO RED STATES ARE DRIVING UP HOME PRICES AND RENTS IN THEIR NEW CITIES, DATA SHOWS



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"If the federal government declines to approve the tax that is structured similar to the existing [health plan tax], Proposition 35 may then sunset per current law," he added.

California has faced a mass exodus of people and businesses over the past decade, with the cost of living being one of the chief reasons individuals cite for leaving the Golden State. One analysis found that almost 10 million people moved from California to other states between 2010 and 2024, while just over 7 million moved to California from elsewhere in the country during the same period.

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The state's exodus has raised concerns about its financial outlook, with the departure of higher-income residents potentially reducing tax revenue for a state heavily dependent on income taxes.

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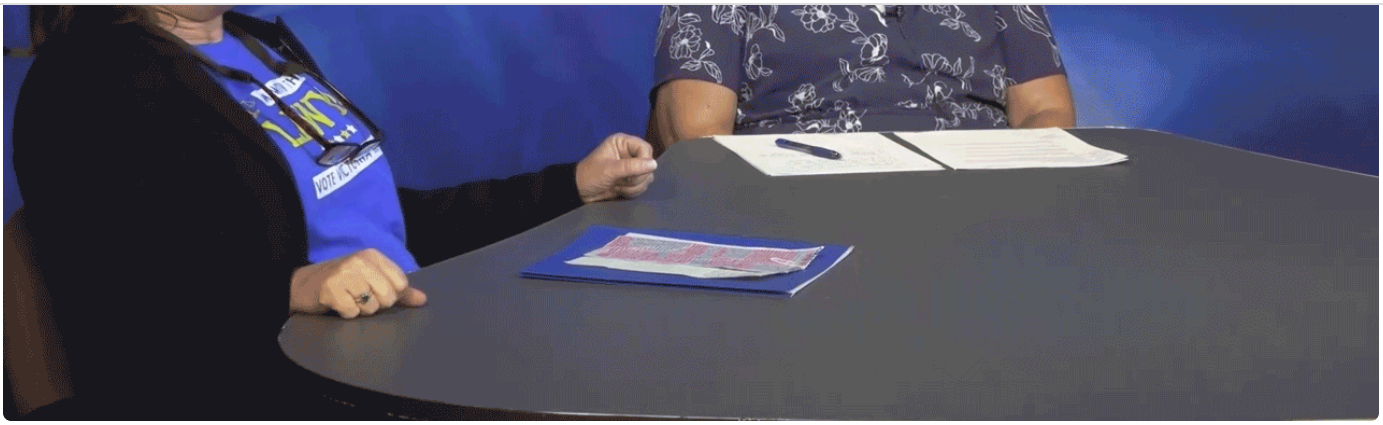
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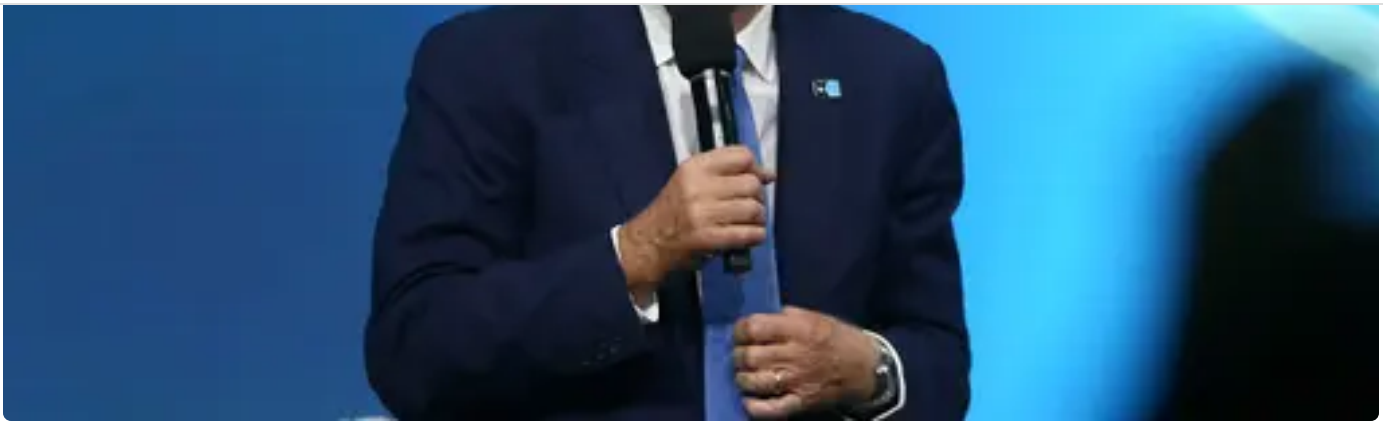
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