

Re-examining the Medi-Cal Employer Tax: *Affordability, Workforce Stability, and California's Economic Resilience*

September 2026

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Center for Jobs
& the Economy



Table of Contents

Executive Summary	2
<i>Disproportionate Harm to Latino Workers and Reentry Programs.....</i>	<i>3</i>
<i>Families Pay More for Essentials</i>	<i>3</i>
<i>Direct Household Inflation: Base Case vs. Cumulative Impact</i>	<i>3</i>
<i>A Perverse Incentive: Jeopardizing Healthcare Coverage</i>	<i>4</i>
<i>Flawed Math and Self-Defeating Budget Offsets</i>	<i>4</i>
<i>California's Vulnerable Job Market.....</i>	<i>5</i>
<i>Conclusion.....</i>	<i>6</i>
Key Findings	7
Background	13
<i>Proposed Tax.....</i>	<i>13</i>
<i>Medi-Cal.....</i>	<i>13</i>
<i>Affected Businesses</i>	<i>18</i>
<i>Not All Businesses are Corporations</i>	<i>21</i>
<i>Corporate Income Tax Highly Concentrated</i>	<i>22</i>
<i>California Jobs are Stagnant.....</i>	<i>23</i>
<i>California is Already Raising Taxes on Businesses.....</i>	<i>27</i>
<i>Employer Health Insurance Costs are Rising Faster in California</i>	<i>28</i>
<i>Intersection of Employment & Medi-Cal.....</i>	<i>30</i>
Employment Impacts.....	35
<i>Assumptions.....</i>	<i>35</i>
<i>SB 177 Required Tax Option Falls Short of Revenue Target.....</i>	<i>35</i>
<i>Cumulative Employer Tax Increases.....</i>	<i>37</i>
<i>Impacts on Firms: Price Effects.....</i>	<i>38</i>
Economic & Fiscal Impacts.....	41
<i>Economic Impacts.....</i>	<i>41</i>
<i>Fiscal Impacts</i>	<i>41</i>
Unemployment Impacts on State Budget	42
<i>Induced Changes to Labor.....</i>	<i>42</i>
<i>Additional State Fiscal Impacts</i>	<i>43</i>

Other Impacts.....	46
Data Notes	48
<i>General</i>	<i>48</i>
<i>Workers Enrolled in Medi-Cal.....</i>	<i>48</i>

Executive Summary

Under SB 177, California lawmakers directed state budget officials to explore the creation of a monthly tax on large employers (250 or more workers) whose employees receive health coverage through Medi-Cal rather than an employer-sponsored plan. The proposal sets a penalty of \$285 per month for each enrolled employee, expecting to raise \$2.3 billion each year to help fund the state's Medicaid program.

This report seeks to explore the proposed tax, its impact on the employers and employees it targets, and how yet another employee tax will impact the state's anemic jobs market and economic health.

The data shows that large employers in California are already in full compliance with state and federal health care coverage benchmarks. Under the Affordable Care Act (ACA), large employers must offer affordable health coverage to full-time staff, and California's large employers show near-universal compliance: **97% of firms with 200 to 999 workers and 100% of firms with 1,000 or more workers offer health benefits.**

Furthermore, private employers evaluate benefit eligibility using the exact same standard the State of California uses for its own civil service workforce: offering benefits to permanent employees working at least half-time for six months or more. The workers who actually trigger this fee are not full-time employees denied coverage. Instead, **80% are part-time or seasonal workers, 9% are in a standard 90-day waiting period before coverage starts, and 9% are temporary or contract hires.**

Rather than recapturing healthcare costs, this policy functions as a direct penalty on entry-level, bridge, and part-time jobs. Because **62% of the affected workforce is Latino**, and many are individuals in state-sponsored criminal justice reentry programs, the economic fallout will land squarely on vulnerable workers and communities of color.

To evaluate these outcomes, the report models two scenarios:

- **The Base Case:** Models an isolated \$2.3 billion payroll tax, assuming businesses keep their existing staffing models intact. In this scenario alone, consumer price hikes reduce household spending enough to destroy **3,300 jobs**, while family living costs rise by \$700 million (\$53 per household).
- **The Cumulative Case:** Evaluates the tax alongside the \$11.1 billion in other new state business taxes and mandated wage increases scheduled for 2027. Under these combined pressures, the job loss rises to **12,000 to 14,000 positions**, while family cost-of-living increases reach \$5.4 billion (\$408 per household).

However, these two models likely understate the cumulative impacts of the proposal. Beyond these modeled price effects, standard economic research shows employers will actively restructure to avoid the penalty. By eliminating part-time roles, cutting seasonal hiring, and speeding up automation, businesses are projected to cut an **additional 24,000 jobs.**

Disproportionate Harm to Latino Workers and Reentry Programs

The burden of this tax will fall on the workers least able to absorb it:

- **Severe Impact on Latino Employment:** Latino workers make up 41% of California's overall private-sector workforce, but they account for 62% (447,000 workers) of the large-firm employees who would trigger this tax. When businesses cut hours, consolidate positions, or freeze entry-level hiring to manage this monthly fee, Latino workers will bear the brunt of the job cuts.
- **A Setback for Formerly Incarcerated Californians:** California has invested heavily in reducing recidivism, including enrolling individuals in Medi-Cal 90 days before release from state facilities. Formerly incarcerated workers almost always rebuild their lives through entry-level, seasonal, or part-time work. Under this policy, their Medi-Cal enrollment turns them into an added cost liability for employers. Because finding steady employment cuts one-year recidivism rates by 40%, placing an artificial financial hurdle on hiring these workers directly works against state public safety and rehabilitation goals.

Families Pay More for Essentials

The economic analysis tracks price increases through the supply chain using standard input-output modeling. Because the proposal targets large employers across foundational consumer industries, the cost increases land directly on the staples families purchase every week:

- **Groceries and Food:** Retail trade (\$447 million in new tax exposure) and food/accommodation services (\$408 million) represent the two largest industry tax shares, accounting for **over 37% of the total tax**. Supermarket chains, food processing facilities, and neighborhood dining options operate on thin margins and rely heavily on entry-level and part-time staff. Passing these higher payroll charges along means immediate price tags jumps on bread, milk, fresh produce, and prepared meals.
- **Transportation and Household Goods:** Transportation, warehousing, and logistics absorb an additional \$373 million (16%) of the tax. Tacking on new fees across California distribution hubs increases freight and shipping costs for all consumer goods moving through the state, raising prices on clothing, over-the-counter medication, hygiene products, and household hardware.

Direct Household Inflation: Base Case vs. Cumulative Impact

The modeling demonstrates that operating costs cannot remain contained within corporate balance sheets:

- **Under the Base Case (\$700 Million Consumer Impact):** If this tax is levied in isolation, the pass-through of higher operating costs will siphon \$700 million directly out of household budgets, averaging **\$53 in higher costs per California household every year**. For low- and middle-income families with little discretionary cushion, this forces difficult trade-offs between groceries, healthcare copays, and utility bills.

- **Under the Cumulative Case (\$5.4 Billion Consumer Impact):** The proposed tax does not arrive in a vacuum. When combined with the \$11.1 billion in other statutory business taxes, credit caps, and state-mandated wage increases scheduled for 2027, the cumulative pass-through cost to **California consumers surges to \$5.4 billion annually averaging \$408 per household.**

Imposing an employer penalty that cascades into higher checkout prices acts as a regressive burden on the very low-wage workers the policy intends to protect. In an economic environment where California families already struggle to afford basic necessities, this policy will exacerbate household poverty by driving up the shelf price of daily food and household essentials.

A Perverse Incentive: Jeopardizing Healthcare Coverage

The policy creates a harmful Catch-22 that risks stripping Californians of their health coverage:

- **Federal Work Requirements (H.R. 1):** Starting in 2027, federal Medicaid rules require able-bodied adults without dependents to complete monthly work, job training, or community service hours to keep their benefits. Over half (53%) of the workers who would trigger this fee fit this exact demographic.
- **Losing Earnings and Coverage Together:** When employed in entry-level or seasonal jobs, these workers easily meet the federal participation rules and keep their Medi-Cal coverage. If employers eliminate these roles to avoid the \$285 monthly penalty, these workers will lose both their paychecks and the legal status required to maintain their health insurance.
- **Loss of Federal Matching Dollars:** For adult expansion enrollees, the federal government pays **90% of the cost (FMAP)**. When an employed Californian stays enrolled, California's healthcare system receives \$9 in federal funding for every \$1 the state spends. Displacing these workers pushes them into joblessness, causing the state to forfeit critical federal matching dollars and increasing pressure on uncompensated emergency room care.

Flawed Math and Self-Defeating Budget Offsets

The proposal cannot meet its fiscal promises and will trigger new costs across the state budget:

The plan assumes 716,000 workers will generate \$2.3 billion annually at \$285 per month. This revenue target is mathematically impossible under the proposed terms:

Employer Scope	Monthly Tax	Projected Revenue	Monthly Tax Needed to Hit \$2.3B	Effective Wage Penalty on Entry Work
C Corporations Only	\$285 / month	\$1.11 Billion	\$636 / month	+32%
C & S Corporations	\$285 / month	\$1.78 Billion	\$395 / month	+20%

All Firms 250+ (incl. Nonprofits)	\$285 / month	\$2.02 Billion	\$324 / month	+17%
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- **The Rate Escalation Trap:** To raise \$2.3 billion strictly from traditional C-corps, the state would have to more than double the charge to **\$636 per month** per worker. That is equivalent to a **32% surcharge** on a typical entry-level minimum-wage job.
- **Penalizing Non-Profits:** Even if the Legislature expands the tax across every business with 250 employees—including charitable non-profits, healthcare clinics, and community service providers—the plan still falls short by nearly \$300 million.
- **State Budget Offsets:** Real-world market adjustments will erase a major share of the funds raised:
 - As vendors pass along higher operating costs, state and local government procurement expenses will rise by **\$285 million to \$2.0 billion**.
 - Displaced workers forced onto social safety nets will increase state outlays for CalFresh, CalWORKs, and Unemployment Insurance by **\$316 million to \$374 million each year**.
 - Combined with lost personal income and sales tax receipts, **up to one-third of the total revenue raised will be wiped out by state cost increases and revenue losses**.

California's Vulnerable Job Market

This policy would be introduced into an already struggling private-sector economy:

- **Private-Sector Job Losses:** California's private sector is experiencing extended weakness. Outside of government positions and publicly funded social assistance, **California's private businesses have shed 381,000 jobs since September 2022**.
- **Shrinking Workforce Participation:** Between December 2025 and mid-2026, California's active labor force dropped by **328,000 individuals** as discouraged workers stopped searching for employment. Total resident employment remains **226,500 below peak levels**.
- **Penalizing California's Main Job Creators:** While employers with 250 or more workers represent only 0.4% of all private employers, they employ over half of the state's private workforce (between 7.1 and 8.1 million workers). More importantly, **these firms are responsible for 100% of all net private-sector job growth since 2022 (+212,100 jobs)**, while smaller firms lost 87,900 jobs.

- **The "249-Worker" Hiring Barrier:** Setting an abrupt cutoff at 250 employees creates a clear growth penalty. If a business with 249 employees and 50 part-time workers hires just one more person, it doesn't just pay for that 250th worker; it immediately triggers tax liability on all 50 existing part-time staff. That single hire would create a sudden **\$165,000 overnight liability**, providing a powerful reason for mid-sized employers to freeze hiring or expand outside California instead.

Conclusion

The proposed Medi-Cal employment tax is built on a broken foundation. It penalizes employers for offering seasonal, transitional, and flexible employment under the exact same eligibility rules the state uses for its own public employees. By pegging financial penalties to an employee's personal enrollment in a state program, it creates a mechanism that will not work in practice:

1. **It fails the basic math:** It cannot raise the promised \$2.3 billion without massive, unfeasible rate hikes or taxing charitable non-profits.
2. **It harms the very workers it is meant to assist:** It encourages businesses to eliminate the entry-level jobs held overwhelmingly by Latino workers and individuals seeking a second chance after incarceration.
3. **It triggers coverage losses:** By cutting off access to entry-level hours, it will cause thousands of vulnerable Californians to fail federal Medicaid work rules, losing their health coverage entirely while costing the state hundreds of millions in federal matching funds.

Imposing a tax on entry-level jobs will undermine hiring, drive up living costs, strain the state budget, and dislocate vulnerable workers from the healthcare system.

Key Findings

As part of this year's budget package, SB 177 (Committee on Budget & Fiscal Review, Chapter 64, Statutes of 2026) directs Department of Finance to prepare "one or more options for holding the state's largest corporations accountable for the taxpayer costs of their employees enrolled in the Medi-Cal program." At least one of the options is to be a premium to be paid by employers with 250 or more employees "to offset taxpayer costs of their employees enrolled in the Medi-Cal program who are not offered employer health coverage." Additional details provided by Senate Democrats proposed that corporations would be subject to an employment tax of \$285 per month per employee enrolled in Medi-Cal. The Senate proposal estimated total additional revenues from this tax at \$575 million in 2026-27 and \$2.3 billion ongoing to conform with the revenue estimates coming from this year's revision of the Managed Care Organization (MCO) tax.

- The Senate Democrats document claims that the proposed tax will only apply to a very small number of employers. This claim is technically correct in that the latest data indicates firms of 250 or more employees were only 0.4% of all private firms in the state. However, these companies provide over 50% of total private jobs in the state and more critically are the source of all private jobs growth. Since 2022, firms of 250 or more created 212,100 wage and salary jobs. Jobs in firms of less than 250 shrank by 87,900. These companies also pay the predominant portion of the state's corporate income tax. In the latest tax year 2023 data, only 0.5% of C Corporations paid 84.0% of this tax. For all corporations, 0.5% paid 61.5% of the tax. While the proposed tax would affect a relatively small number of firms, changes caused by this tax would have a far greater effect due to their much greater economic and state revenue footprints.
- As proposed, the tax would create a competitive disadvantage for some companies operating within the same market. Not all businesses are corporations. Using the available data for establishments with 250 or more employees from 2023, C Corporations were 54.7% of total private employment while S Corporations, other pass-through entities, and nonprofits held the other 45.3%. If the tax was extended to both C Corporations subject to the corporate income tax and S Corporations generally subject to the personal income tax, the proposal would cover 88.1% of private employment in this size class.
- Proposals focused on corporate income tax also ignore the broad range of taxes and fees paid by businesses in the state. The latest accounting from Ernst & Young concludes that corporate income tax comprised only 9.9% of all state and local taxes paid by businesses in FY 2024. Proposals targeting a single tax but affecting business behavior and investment decisions consequently can have a much broader effect on total state and local revenues.
- The more something is taxed, the less you get of it, and in this instance a tax on jobs is likely to produce fewer jobs. California already is in a jobs-poor state. In 2025, the monthly average number of new nonfarm jobs was only a fifth of the average in pre-pandemic 2019. Since January through the latest data for July, nonfarm jobs (seasonally adjusted) have dropped by 11,300. Jobs in all private firms other than Healthcare & Social Assistance have fallen by 381,000 since their peak in September 2022. And while

Healthcare & Social Assistance jobs have increased largely due to government health care spending, about 40% of those jobs are minimum wage, part time In-Home Supportive Service (IHSS) workers paid with Medi-Cal funds. The labor force data is even softer, with employment still 226,500 below the pre-pandemic peak, and the labor force down by 328,000 since December 2025 as workers have given up on trying to find jobs.

- The proposal is not just a \$2.3 billion tax increase on businesses, but is part of several tax increases—including minimum wage—that will total an estimated \$13.4 billion in new costs in 2027. The potential impacts consequently will be magnified by changes made to adjust to these total costs. This number does not include effects of extending the current temporary personal income tax rates on high earners as proposed by Proposition 3, which would affect the 42% (by employment) of businesses that are pass-through entities and generally taxed at the personal income tax rates. Corporate income tax covered 9.9% of all state and local taxes paid by California businesses in FY 2024; personal income tax was 14.7%.
- Employer health care costs are already rising faster in California than in the US overall. Between 2022 and 2025, the employer share of private company premiums for single coverage rose 25.4% in California vs. 21.1% in the US, and family coverage by 23.8% vs. 22.9%. Overall, US employer health care costs are expected to rise at their highest rate in 2 decades in 2027, at an 11.1% increase.
- Contrary to claims in the Senate Democrats document, companies in this size class are required to offer health insurance to their employees. Under the Affordable Care Act (ACA), companies with 50 or more employees are required to offer health care insurance meeting various standards. Kaiser Family Foundation surveys show 97% of firms in California with 200-999 workers offered health benefits in 2025, while 100% of firms with 1,000 or more did so. The ACA allows up to a 90-day vesting period before health coverage is offered. ACA exemptions for coverage include seasonal workers employed for less than 6 months a year, part time workers working less than 30 hours a week, and certain nonprofits and religious organizations.
- **These exemptions are the same as followed by the State of California under its health insurance benefits.** Health insurance is offered to employees with “permanent or limited term appointment of more than six months (at least six months plus one day) and a time base of half-time or more.” State health benefits, vesting periods for various levels of those benefits, and premiums also vary by employee bargaining unit.
- The ACA requires employers to offer coverage. No provisions require employees to take it. For private employees enrolled in Medi-Cal (enrolled workers) offered but not taking employer coverage, estimates from the Annual Social and Economic Supplement (ASEC) of the Current Population Survey indicate that 65% in 2025 did so because they were covered by another health plan while 42% did so because employer coverage was too expensive. Both responses in large part stem from the high portion still receiving Medi-Cal at that point due to the extended unwinding process followed by the state after the pandemic period continuous coverage requirement. In other words, many declined employer coverage because the state was still allowing them to be on Medi-Cal.

- Based on the ASEC estimates, employed workers (all firm sizes) comprised 36% of total Medi-Cal enrollment in 2024. Of this amount, 79% were private wage and salary workers, 11% self-employed, and 11% government wage and salary workers (does not add up to 100% due to rounding).
- Based on the ASEC estimates and the current Department of Health Care Services (Department) projections for 2026-27, an estimated 845,000 enrolled workers are in companies offering employer coverage, while 716,000 are not offered employee coverage. Of the 716,000, an estimated 80% are not eligible due to the part-time and seasonal ACA exemptions, 9% are in the vesting period and will subsequently become eligible, and 9% are contract or temporary employees.
- The 716,000 is the base estimate for the number of workers triggering the proposed tax, but this number falls far short of meeting the expected revenue requirements:
 - ✓ If applied only to C Corporations, the tax would yield less than half of the required amount at only \$1.11 billion. Reaching the \$2.3 billion target would require a tax of \$636 per employee per month.
 - ✓ If applied to both C and S Corporations, the tax would still fall short by nearly a quarter at \$1.78 billion. Meeting the target requires a tax of \$395.
 - ✓ If applied to all businesses including nonprofits, the tax is still 12% short of the target at \$2.02 billion. Meeting the target requires \$324, or the equivalent of a 17% increase on the minimum wage in 2027. Not all affected workers will be at the minimum wage, but this benchmark indicates the core effect of the proposed tax.
 - ✓ These revenue numbers likely will be worse: (1) they assume employees are enrolled the entire time they are working (an average of 43 weeks a year in 2024); (2) the enrolled worker estimates are skewed substantially upwards by the then-nascent unwinding process from the pandemic period continuous coverage requirement; (3) businesses are likely to respond to the tax by reducing at least some of their positions likely triggering the tax, including reduction of part time and seasonal workers and replacement with added hours for other current workers and with technology, as discussed below; and (4) technical factors related to the ASEC survey likely add to the 716,000 being an overestimate as well.
- Because the SB 177 required option is unlikely to produce the revenue target, the impact analysis instead considers two cases. The Base Case is a new \$2.3 billion payroll tax with details TBD. The Cumulative Case considers this tax in combination with the \$11.1 billion in additional new taxes, including the minimum wage increase.
- Cost Impacts to firms will occur as these costs are passed on in higher prices. Direct costs will occur as companies use these higher price goods and services to produce their own goods and services, while indirect costs will occur as their suppliers do the same:
 - ✓ In the Base Case, the proposed tax if levied to produce revenues of \$2.3 billion would increase employer direct costs by up to \$1.7 billion and indirect costs by \$0.8 billion, for a total cost increase of \$2.5 billion. The cost of goods and services

- purchased by households would increase by an estimated \$0.7 billion—an average of \$53 per household—and by state and local governments by \$0.2 billion. Note that the effect on state and local governments covers only direct purchases of final goods and services. The effects on government enterprises such as utilities, ports, and airports are incorporated into the direct and indirect impacts.
- ✓ In the Cumulative Case considering all new business taxes, employer direct costs would increase by up to \$9.9 billion and indirect costs by \$4.3 billion, for a total cost increase of \$14.1 billion. The cost of goods and services purchased by households would increase by an estimated \$5.4 billion and by state and local governments by \$1.4 billion.
 - Economic Impacts are estimated from the change in household demand as they adjust their budgets to these higher costs:
 - ✓ The Base Case proposed Medi-Cal tax would eliminate up to an estimated 3,300 jobs while reducing labor income (wages and benefits) by \$266 million. The state GDP would drop by \$511 million—equivalent to 0.5% of the state’s GDP increase between 2024 and 2025—and total output by \$792 million.
 - ✓ Combined with the other new taxes in 2027, jobs would fall by 24,000—equivalent to 42% of total nonfarm jobs growth in 2025—and labor income by \$1.9 billion. State GDP would fall by \$3.7 billion—equivalent to 3.7% of the 2025 increase—and total output by \$5.7 billion.
 - Fiscal Impacts are estimated as the total changes in state and local government acquisition costs from the Cost Impacts and state and local revenues from the Economic Impacts. Base Case impacts are a net cost of \$285 million. Cumulative Case impacts are a net cost of \$2.0 billion.
 - These impacts are estimated assuming constant production functions including labor use, but as indicated above, businesses also are likely to respond to these higher costs by reducing jobs especially in positions such as seasonal and part time that would trigger the proposed tax, and shift this workload to higher productivity workers justifying the higher costs and to technology. Using the effective minimum wage increase and employment elasticities from the minimum wage literature, the estimated job loss from the proposed tax would be an additional 12,000 to 14,000, depending on the level of the proposed tax per worker.
 - These job losses would produce additional fiscal impacts to the state as workers shift from earned income to reliance on state benefits. Workers losing their jobs are likely to remain unemployed for an extended period in the current jobs-poor environment, as evidenced by the large number of workers currently leaving the labor force after being unable to find a job. Using the profiles for the 716,000 enrolled worker base from the ASEC estimates, additional state benefit costs would increase by up to \$316 to \$374 million, with about 44% coming from state funds and the remainder from federal funds. Combined with the previous fiscal impact estimates, total additional costs to the state would offset about 20% of the potential revenue yield from the proposed tax.

Although not included in these estimates, persons without health insurance are subject to a state penalty of \$950 per adult and \$450 per dependent child under 18 when filing an income tax return. Although there are exemptions, able bodied childless adults losing their jobs and consequently Medi-Cal coverage as a result of the proposed tax could also be subject to this penalty, increasing state revenues by up to another \$6-7 million.

- These numbers are based on incremental changes from the current, ASEC-estimated enrollment status of the affected workers, both in Medi-Cal and the other benefit programs. This baseline does not have to be the case. Employed, workers have the opportunity to promote, becoming both eligible for employer coverage and receiving increased earnings to afford that coverage as well as emerging from state assistance. Unemployed, these workers especially in the state's current soft labor market are likely to face extended periods where they remain dependent on those programs. Accounting for this factor, the unemployment impacts on the state budget would be increased by up to an additional \$316 to \$369 million in ongoing costs, bringing the total offset to about a third of the potential revenue yield from the proposed tax.
- These impacts are more likely to affect Latino workers. From the ASEC estimates, Latinos are 62% of the estimated 716,000 enrolled worker base. Workers who are not a citizen are 24%, although this estimate likely undercounts if at all undocumented immigrants due to lower to nil response rates for surveys of this type. Overall, the larger firms targeted by this tax have a relatively higher employment share of Latino workers, especially in Retail Trade, Other Services, Accommodation & Food Services, and Arts, Entertainment, & Recreation.
- In addition to the quantitative estimates, the report also discusses additional impacts in more general terms.
 - ✓ Compliance costs will increase for all companies in this size class due to requirements to report on potentially affected employees as well as the costs of challenging any subsequent inaccurate tax billings.
 - ✓ The proposed tax will have a perverse effect on the state's universal coverage goals. The ASEC estimates indicate that just over half of the employees likely triggering the proposed tax are adults subject to the work/community engagement requirements of H.R. 1. Working, they are fully in compliance with these requirements and remain eligible for health care coverage. Unemployed as the result of the proposed tax especially in the state's current soft labor market, they are more likely to lose coverage. Employed, they retain coverage largely using "other people's money" (the 90% federal FMAP). Unemployed, they remain on their own or covered only through some future expansion of the state-only portion of Medi-Cal.
 - ✓ State, local, and federal regulations increasingly have used employment size limits in a gesture to reduce potential impacts on small business. In doing so, this approach adds a potential barrier to business expansion. Firm going from, for example 49 to 50 employees or in this case 249 to 250, the incremental costs are not just for one more employee but all existing employees as well. In part as a result of these proliferating hurdles especially on the state and local level, movement between the middle firm size categories has been minimal. Dynamism in job creation has been more at the lower entry level and at the largest size firms with more capacity to adjust to these changing cost constraints. Firms just below the regulatory/tax trigger levels instead

often forego incremental job changes, waiting until more major expansion opportunities arise to amortize the sizeable marginal cost increases or instead choose to make their expansions in another state.

- ✓ An employer's potential exposure under this proposed tax is subject to frequent changes not from their decisions but decisions by the state on Medi-Cal eligibility which has varied considerably over the past 12 years. The proposed tax provides an automatic revenue source to facilitate further changes going forward. In this respect, the proposed tax also represents yet another precedent to create a broader payroll tax to fund the state Medi-Cal program. Few taxes once introduced have escaped the tendencies to broaden their base and rates. The state has already breached this precedent through its new MCO tax under SB 125 that taxes the benefit portion of employee compensation. The proposed tax would begin the structure of a tax on the earnings portion as well.
- ✓ The primary workers triggering an employer's exposure to the proposed tax are part time workers and seasonal/temporary workers that are exempt from the ACA employer insurance mandates. Another potentially identifiable group covers persons who were recently incarcerated and who were automatically enrolled under the state's waiver. These workers would trigger the proposed tax only if they were in a job covered by the ACA exemptions as long as the tax applies only to enrolled workers who were not offered employer health coverage. Others, however, have expressed concern that the proposed tax would raise further barriers to employment for the formerly incarcerated.¹ Previous studies have indicated that the primary indicator of recidivism is poverty.² Others have concluded that recidivism can be cut by 40% for persons finding work within a year.³ To the extent these concerns prove out, this tax would undermine the state's overall rehabilitation objectives.

¹ California's "Fair Share" Proposal Could Lead to Unfair Hiring, Advocates Warn, Sacramento Bee, August 12, 2026.

² Lucius Coulote and Daniel Kopf, Out of Prison & Out of Work: Unemployment Among Formerly Incarcerated People, Prison Policy Initiative, July 2018.

³ U.S. Sentencing Commission, Measuring Recidivism: The Criminal History Computation of the Federal Sentencing Guidelines, Research Series on the Recidivism of Federal Guideline Offenders, Release 1, May 2004.

Background

Proposed Tax

As part of this year's budget package, SB 177 (Committee on Budget & Fiscal Review, Chapter 64, Statutes of 2026) directs Department of Finance to prepare "one or more options for holding the state's largest corporations accountable for the taxpayer costs of their employees enrolled in the Medi-Cal program." At least one of the options is to be a premium to be paid by employers with 250 or more employees "to offset taxpayer costs of their employees enrolled in the Medi-Cal program who are not offered employer health coverage."

In order to achieve the expected revenue levels, the actual proposals forthcoming from Finance are likely to vary from the required option, as discussed below. Moreover, any final tax adopted by the legislature may differ from the \$2.3 billion target as revenue needs for Medi-Cal continue on an upward spiral, as the state continues to expand eligibility and health care costs, as the state has consistently underestimated the caseload ramifications of those expansions over the past 12 years, and as the state continues to face an overall structural deficit as expenditures have continued to outpace available revenues in recent and the foreseeable years.

Medi-Cal

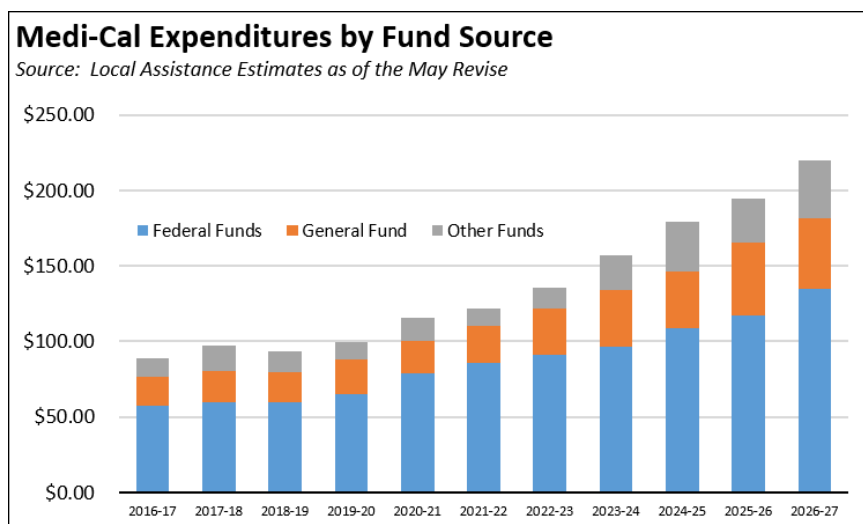
Medi-Cal is the state version administering the federal Medicaid program in California along with health benefits to state-only income tested eligible persons. The program is broadly composed of three elements: health services benefits to enrollees, county administration to determine eligibility, and fiscal intermediary services to process claims.

Medi-Cal is funded through a combination of federal and state dollars. The federal portion is determined through the Federal Medical Assistance Percentage (FMAP) which varies by state and which for California is set at 50% for most enrollees. The level can be higher or lower based on factors specific to certain enrollee segments, most notably beginning at 100% in 2014-16 and then phasing down to 90% by 2020 for enrollees under the Affordable Care Act (ACA) optional Medicaid expansion. The FMAP also varied due to temporary additional federal matching during the pandemic.

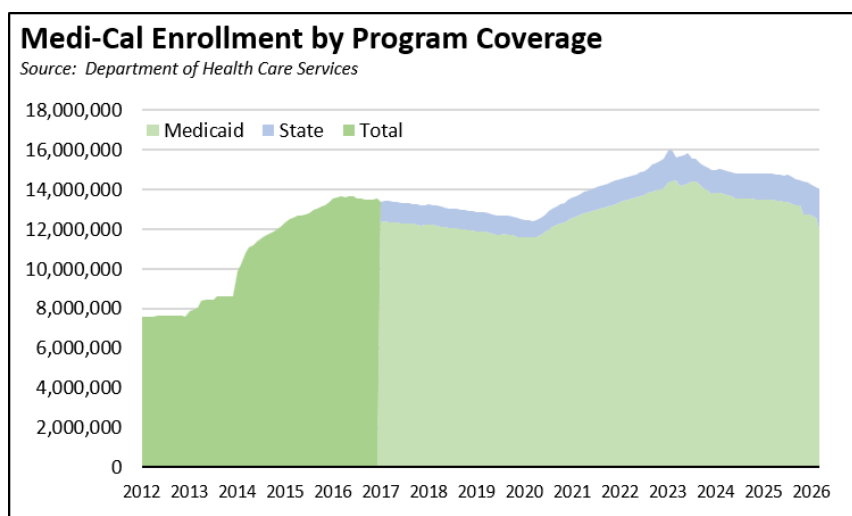
State funding primarily comes from the general fund but also includes the MCO tax, tobacco tax, over 30 other sources including in recent years budget loans, and local funds which in turn are largely provided through the 1991 and 2011 Realignment funds. In the recently enacted budget bills, total program expenditures from all fund sources are authorized at \$219.7 billion (\$46.9 billion general fund).

Despite being the second largest and strongest growing general fund expenditure and the largest total expenditure, the budget documents provide little identifiable detail or totals for program spending. Instead, the Department's Local Assistance Estimate reports are used to construct an historical series along with a current fiscal year estimate from other sources. Data for each prior fiscal year is taken as the projected expenditures at the time of the May Revise. Overall, total spending has increased by 146% since 2016-17, of which general fund spending increased 148%. Spending, however, accelerated in recent years, going from an average

annual increase of 6.4% through 2020-21, to 11.3% annually in the years after. And contrary to currently expressed concerns, the budget bill expects federal funding to increase by about \$16 billion (12%) this fiscal year.



Medi-Cal enrollment saw its most dramatic increase under the ACA optional expansion, and has since grown primarily due to the state expanding Medi-Cal services to population segments who are ineligible for Medicaid. Comparing the first quarter of 2017 (when consistent program coverage data is available) to the most current data for the same period in 2026, Medicaid-eligible enrollment (including Children's Health Insurance Program (CHIP)) was largely unchanged at 12.4 million, while enrollment from non-Medicaid persons rose by 673,000. Overall as the result of this additional coverage, total enrollment rose a net 5.4% over the period to 14.1 million. Compared to the pandemic-related peaks, enrollment is currently on a downward trend due, as discussed below, to the reintroduction of annual eligibility redeterminations.



This additional coverage has been a primary factor behind the rising cost of Medi-Cal, but other state actions leading to cost increases within the program and to health care in general have contributed along with higher costs due to the aging population including the state share related

to dual-eligible (Medicaid and Medicare) enrollees.⁴ The growth in costs related to factors under the state's control has been pulled back in some instances as well following changes sparked by the cost consequences of those initial decisions, resulting in continually shifting definitions of who is eligible for Medi-Cal coverage. For example, the 2025-2026 budget bills enacted a series of reductions⁵ to ease the growth in Medi-Cal spending by \$4.5 billion and rising to \$8.6 billion by 2028-29, although total costs for the program still rose on net by 9.9% and general fund costs by 20.1%. These changes, however, along with the draw down of available reserves and other budget shifts only get the Medi-Cal and overall state budget through the current fiscal year, and a number of key cost, coverage, and revenue issues were punted to the next governor and legislature including the size and coverage of the proposed employment tax.

As taken from various documents,^{6,7,8} specific actions in recent years have included the following:

- In 2014, California expanded coverage to income-tested childless adults, as allowed under the federal ACA optional coverage provisions. When proposed in the 2013 Budget, this option was expected to increase enrollment by 1.2 million by 2017 (14%). Instead, the extension of free health care expanded enrollment by 4.9 million (49%).
- ACA also imposed new requirements on employers, individuals, and health plan coverage. Some of these were later overturned in court, but California also enacted its own mandates in these areas. In the case of Medi-Cal, California provides benefits beyond what is required under Medicaid including dental (currently slated to end in 2027), vision, transportation, and long-term services and supports, although various benefits such as dental, podiatry care, and acupuncture have been cut to achieve budget savings in certain years.
- The continuous coverage requirement during the pandemic (effective through the second half of 2023) meant that most persons enrolled under Medicaid remained on the rolls regardless of changing eligibility. As shown in the chart above, Medi-Cal enrollment had been declining prior to the pandemic, but has since remained elevated as this factor has worked through the system. The length of this draw-down period has been drawn out by other factors, particularly the shift back to annual eligibility redeterminations and the state's waivers (which expired in 2025) allowing those redeterminations to be condensed.⁹
- Expanded coverage to income-tested undocumented immigrants. This population previously was eligible only for emergency coverage (emergency rooms, pregnancies, long-term care), while state-funded comprehensive coverage was expanded in phases between 2016 and 2024. As with the ACA optional expansion, these changes contributed to an enrollment surge that cost \$6.2 billion more than projected in 2024-25.¹⁰ Recent budgets have pulled back on specific expansions in order to reduce the growth in costs

⁴ See LAO, The 2026-27 Budget, Medi-Cal Analysis, March 2, 2026, for the relative contribution of the various factors.

⁵ Legislative Analysts' Office (LAO), The 2025-26 California Spending Plan, Health, October 16, 2025.

⁶ LAO, How Will the Changing Landscape Affect California's Health Care System?, May 2026.

⁷ LAO, The 2026-27 Budget, Medi-Cal Analysis, March 2, 2026.

⁸ California Health Care Foundation, Medi-Cal Explained: Medi-Cal Financing and Spending, July 13, 2023.

⁹ California Health & Human Services Agency, Issue Brief, California's Journey with Medi-Cal Redeterminations, March 2024.

¹⁰ CalMatters, California's Medi-Cal Shortfall Hits \$6.2 Billion with 'Unprecedented' Cost Increases, March 18, 2025.

including shifts of portions of this population to different levels of Medi-Cal coverage and the current budget bills' freeze on new undocumented adult applications for comprehensive coverage, shifting new enrollees from this segment to restricted coverage but also retaining currently eligible enrollees.

- Beginning in 2024, eliminated asset test for seniors and persons with disabilities. As a cost-savings measure following a surge in senior enrollment (an additional 14,500 each month in the first half of 2024 compared to 1,600 monthly in the six months prior), asset limits were restored beginning with 2026. Allowable assets go through a phased drop to \$21,000 individual/\$31,000 couples by 2027, with home equity, retirement accounts, and primary vehicles remaining exempt from the limits.
- Beginning in 2023 under a federal waiver, began prerelease enrollment for incarcerated individuals 90 days prior to release.
- Expanded the range of benefits provided under Medi-Cal coverage to all enrollees, including enhanced care management, community supports, and coverage for wellness coach services.
- Increased rates for Medi-Cal providers under Props 52 (2016), 56 (2016), and 35 (2024).
- SB 3 (Leno, Chapter 4, Statutes of 2016) made In-Home Supportive Service (IHSS) workers—provided as a Medi-Cal benefit—subject to state minimum wage at an estimated cost of \$1.5 billion in 2022. The total cost continues to increase due to the annual increases in the state minimum wage, along with separate but higher minimum wages in various cities.
- SB 525 (Durazo, Chapter 890, Statutes of 2023) increased the minimum wage for health care workers to \$25 an hour by 2026. After identifying a cost to the budget of \$4.0 billion in 2024-25,¹¹ the beginning of the phase-in period was pushed from June to October 2024. In order to reduce the cost pressures on Medi-Cal, workers in hospitals with a high mix of Medicare and Medi-Cal patients, along with rural hospitals, were put on a slower transition to the \$25 rate. While health care workers in most other situations reach \$25 in 2026 and 2028, this cost-savings exemption sets the affected workers at \$18 in 2024, growing 3.5% annually until reaching \$25 in 2033. In addition, this minimum wage does not apply to facilities owned, operated, or controlled by the state including California State University and Community Colleges, but not including University of California.
- Under SB 125 (Committee on Budget & Fiscal Review, Chapter 24, Statutes of 2026), the MCO tax was shifted to cover private insurance plans at a cost of \$8.85 per enrollee per month. A family of 4 buying their own insurance or covered by an employer consequently will see those costs increase by up to \$425 a year on top of other rising insurance costs.¹² For example, Covered California rates increased an average of

¹¹ Healthcare Minimum Wage Expected to Cost \$4 Billion in First Year as California Budget Deficit Looms, Los Angeles Times, November 4, 2023.

¹² California Medical Association, CMA Warns 2026-27 State Budget Will Increase Health Insurance Costs, June 18, 2026.

10.3% in 2026.¹³ CalPERS health plans averaged an 8.21% increase in 2026,¹⁴ and will increase an additional 4.97% in 2027.¹⁵

The federal H.R. 1 has led to further changes, as reflected in the current budget bill and the Department's implementation plan.¹⁶ Among others, the two key provisions expected to show the largest effects on enrollment and state costs are the following:

- Reduces certain non-citizen eligibility for federally funded Medicaid, estimated by LAO to affect about 1.4% (200,000) of Medi-Cal enrollment. These enrollees are being shifted to restricted-scope Medi-Cal.
- Beginning in 2027, adds new work/community engagement requirements along with a 6-month redetermination for able-bodied childless adults enrolled under the ACA optional expansion. The number potentially affected by this provision is uncertain given the number of exemptions, which LAO estimates could exempt up to 40% of this segment. That number may be higher. For example, the high unemployment exemption, which the Department will apply automatically, alone would have affected anywhere from 13 to 24 counties over the past 12 months containing up to 19.7% of total Medi-Cal enrollment.

Enrollees also can comply with the work requirements through multiple ways: monthly income of \$580 (based on 80 hours of work at the federal minimum wage and equivalent to only 33 hours of work a month in 2027 at the California minimum wage), seasonal employment at this level over the prior 6 months, employment of at least 80 hours a month, community service of 80 hours a month, half-time school enrollment, enrollment in a work program at 80 hours a month, or any combination of the preceding.

LAO estimates these provisions will reduce current enrollment by about 14% (2 million by 2030) due to failure to comply with one of the several eligibility options but more from an expectation that overly bureaucratic implementation by the state and counties will deter enrollment in the application and redetermination processes. This estimate also assumes the state will leave this segment to their own devices rather than orienting other state workforce training, education, and jobs programs to assist them in compliance.

In contrast, however, the Department's current projections¹⁷ show the adult expansion enrollment dropping by 276,918 in 2026-27. Of this amount, only 42,900 comes from the 6 months the work/community engagement requirement will be in effect. The largest drop (132,593) is expected instead to come the unwinding process from the pandemic continuous coverage requirement.

These provisions will have a smaller impact on the general fund at implementation but potentially a greater one depending on the extent to which this segment is covered by expansion of state-only coverage. This segment was incorporated into Medi-Cal under

¹³ Covered California, Covered California Rates and Plans for 2026: Consumer Affordability on the Line With Uncertainty Surrounding Federal Premium Tax Credit Extension, August 14, 2025.

¹⁴ CalPERS, CalPERS Announces Health Plan Premiums for 2026, July 15, 2025.

¹⁵ CalPERS, CalPERS Holds Health Premium Increase to 4.97% for 2027 While Advancing Care Quality, July 14, 2026.

¹⁶ Department of Health Care Services, Implementation Plan for New Federal Eligibility and Enrollment Changes Under H.R.1, January 29, 2026.

¹⁷ Department of Health Care Services, Medi-Cal, May 2026 Local Assistance Estimate for Fiscal Years 2025-26 and 2026-27.

the assumption that the costs would continue to be covered by someone else—the 90% FMAP in federal subsidies vs. the 50% applied to the general Medicaid enrollment. That assumption is now tempered by the H.R. 1 provisions, but any effort to cover the shift with state-only coverage and its looser requirements would again risk a surge in state-only caseload and consequently state-only costs as has been seen in previous instances.

Overall, the Department's current projections expect caseload reductions due to H.R. 1 to be lower than estimated by LAO. The largest reductions instead come from state actions, most notably continuation of the unwinding of the pandemic continuous coverage requirements. Again, as noted above, the work requirement estimate covers only 6 months as this segment is shifted from annual to 6-month redeterminations beginning in January.

Caseload Changes from Policy Changes

Source: May 2026 Local Assistance Estimates

	Source	2025-26	2026-27
Full-Scope Enrollment Freeze	H.R. 1	-25,518	-190,103
Work/Community Engagement Requirement	H.R. 1	0	-42,900
Unwinding Redetermination Flexibilities	state	-38,810	-256,037
Asset Limit Reinstatement	state	-6,701	-49,482
SB 525 Health Care Worker Minimum Wage	state	-1,198	-10,306
Other State Policy Changes	state	-8,905	-6,636
Total		-63,322	-542,192

Affected Businesses

In general, the number of potentially affected businesses in the state is indicated in Employment Development Department's (EDD's) Size of Firm data. In the latest results for 2025:Q2, there were 6,263 firms with 250 or more employees, or only 0.4% of the total firms in California. However, these companies employed 7.1 million private wage and salary workers, or nearly half at 45.5% of the state total. While the proposal as maintained in the Senate Democrat document may affect only a very small percentage of firms, the potential impact on jobs and state revenues is substantially more significant.

Although relatively stable but easing in the post-pandemic period, the number of companies in this category is down 89 (1.4%) from the level in 2019:Q2 (the oldest data available).

Employment Estimates, Firms 250+

Source: see text for source and caveats

	EDD	QWI	BDS
2023	7,068,673	8,082,498	9,119,200
2024	7,083,681	8,106,358	
2025	7,083,488	8,125,319	

EDD, however, is not the only data source, and presumably determines their size categories based on employment within the state. Other sources taking into account national employment levels indicate the incidence of this tax could be higher:

- US Census Bureau Quarterly Workforce Indicators (QWI) show employment in this size category higher at an average of 8.1 million in 2024 and 2025, or 52.2% of private wage and salary jobs in the state.
- The Census Bureau's Business Dynamics Statistics (BDS) shows higher numbers as well, but the total has to be estimated as the break-point size category covers firms of 100-499. Assuming they are distributed by size across this segment as in the EDD data, the number of firms over 250 operating in California in 2023 is 10,520, accounting for 9.1 million employees or 57.3% of the state total.

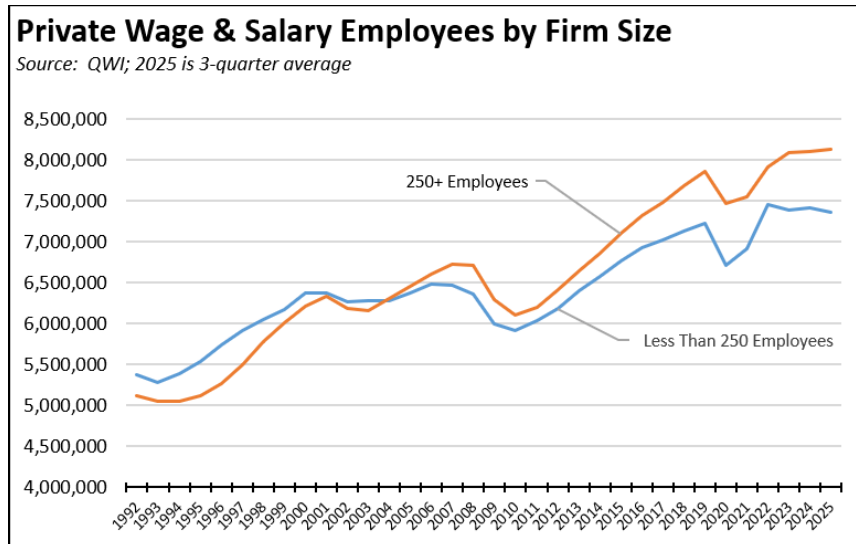
Using the most current complete year (2024) QWI data, large firm concentration varies across industry. Average annual wage generally is substantially higher in the larger firms, with the wage differences much narrower in Retail Trade, Agriculture, Accommodation & Food Services, and Administrative & Support Services. Within the 250+ employee category, Health Care & Social Assistance is the largest employer (15.4% of the total), followed by Retail Trade (12.7%) and Manufacturing (9.2%).

Firm Size by Industry, 2024

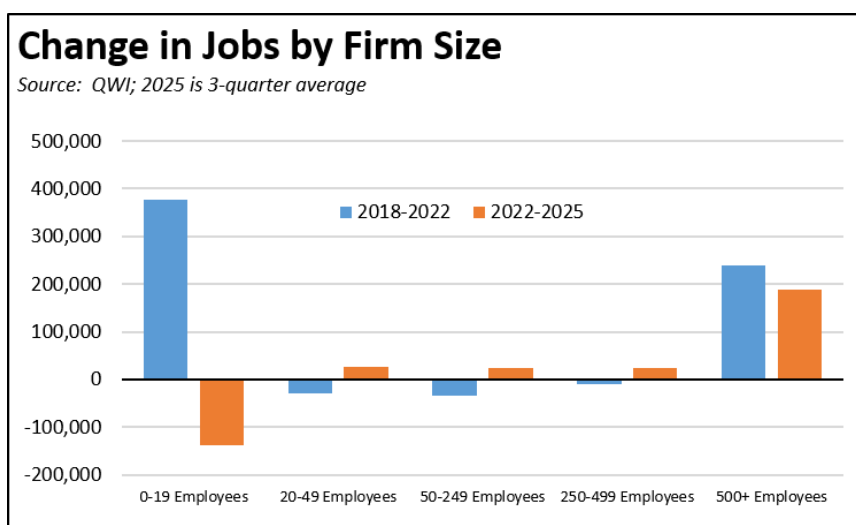
Source: QWI; all private industry

	Employment			Average Annual Wage	
	0-249	250+	250+ Share	0-249	250+
Total	7,413,394	8,106,358	52.2%	\$61,176	\$110,538
Agriculture, Forestry, Fishing & Hunting	269,554	128,239	32.2%	\$36,224	\$38,464
Mining, Quarrying & Oil & Gas Extraction	6,908	9,177	57.1%	\$92,694	\$130,922
Utilities	6,884	55,975	89.0%	\$107,515	\$161,914
Construction	698,475	228,839	24.7%	\$71,449	\$109,532
Manufacturing	494,763	743,197	60.0%	\$71,896	\$161,859
Wholesale Trade	337,549	312,670	48.1%	\$82,367	\$128,512
Retail Trade	510,499	1,029,208	66.8%	\$51,566	\$49,721
Transportation & Warehousing	217,665	515,744	70.3%	\$54,426	\$80,896
Information	115,528	614,235	84.2%	\$137,558	\$229,521
Finance & Insurance	145,724	347,673	70.5%	\$136,772	\$183,017
Real Estate & Rental & Leasing	186,006	116,567	38.5%	\$73,715	\$96,876
Professional, Scientific, & Technical Services	699,911	679,189	49.2%	\$112,332	\$197,618
Management of Companies & Enterprises	29,454	265,537	90.0%	\$93,120	\$181,984
Admin. & Support & Waste Mgmt & Remediation	404,024	675,072	62.6%	\$54,154	\$60,548
Educational Services	207,888	165,478	44.3%	\$61,151	\$69,492
Health Care & Social Assistance	1,497,831	1,250,219	45.5%	\$43,581	\$85,577
Arts, Entertainment, & Recreation	175,054	176,684	50.2%	\$46,877	\$65,728
Accommodation & Food Services	983,515	652,131	39.9%	\$31,295	\$37,651
Other Services (except Public Administration)	426,164	140,527	24.8%	\$49,238	\$59,306

More importantly, since 2022, wage and salary employment grew by 212,100 in firms of 250 or more employees, while shrinking by 87,900 in firms of 250 or less.



Looking at a finer break down as in the following chart, the largest firms in fact have been responsible for all growth in private wage and salary jobs since 2022. Tax proposals specifically aimed at making job creation more costly in the larger firms, consequently, have a greater potential for affecting jobs overall within the state.



By ethnicity, Latino employment varies substantially across industry. Firms of 250+ employees show the highest incidence of Latino workers compared to smaller firms in Retail Trade, Other Services, Accommodation & Food Services, and Arts, Entertainment, & Recreation. Smaller firms have a higher relative incidence of Latino workers in Professional, Scientific, & Technical Services, Management of Companies & Enterprises, Manufacturing, and Information.

Latino Share of Employment, Firm Size by Industry, 2024

Source: QWI; all private industry

	Employment Share	
	0-249	250+
Total	35.7%	37.4%
Agriculture, Forestry, Fishing & Hunting	51.2%	51.8%
Mining, Quarrying & Oil & Gas Extraction	42.4%	44.0%
Utilities	30.2%	33.2%
Construction	45.7%	46.9%
Manufacturing	42.2%	38.1%
Wholesale Trade	35.8%	39.6%
Retail Trade	34.5%	47.6%
Transportation & Warehousing	45.7%	48.2%
Information	16.5%	15.3%
Finance & Insurance	27.0%	27.3%
Real Estate & Rental & Leasing	33.7%	39.2%
Professional, Scientific, & Technical Services	22.5%	18.3%
Management of Companies & Enterprises	35.6%	31.7%
Admin. & Support & Waste Management & Remediation	42.4%	43.2%
Educational Services	23.5%	28.3%
Health Care & Social Assistance	34.1%	36.7%
Arts, Entertainment, & Recreation	27.5%	35.8%
Accommodation & Food Services	37.0%	49.3%
Other Services (except Public Administration)	33.7%	45.6%

Not All Businesses are Corporations

While the proposal is focused on taxing corporations, a pronounced trend has been the increasing shift to pass-through entities such as partnerships, sole proprietorships, LLCs, and Subchapter S corporations as a preferred form of business organization. As a result, the required option would enact a competitive cost disadvantage for a portion of employers within the state as they compete in the future with companies within the same industry not affected by this tax.

Data is not available by firm, but the Census Bureau County Business Patterns (CBP) series provides data by business form at the establishment level. Using this data undercounts the situation to some extent. Establishments of 250 employees or more clearly would fall under the proposal, while smaller establishments could still be part of a qualifying firm but not counted using this data source.

Using the most current 2023 data, the extent of this disadvantage would depend on how S-corps are handled in the final proposal. As contained in the findings of SB 177, this tax proposal is heavily predicated on recouping corporate tax reductions contained in the federal H.R. 1. S-corps, however, as a pass-through form are generally taxed at personal income tax rates, not corporate. If the proposals are limited to entities subject to the corporate income tax, then only about half (by employment) of the potentially affected businesses would be subject to this new

tax. Pass-through entities opting to be taxed under the PTE tax add a further wrinkle to this calculation.

Establishments with 250+ Employees by Business Form, 2023

Source: County Business Patterns; by employment

	C-Corp	S-Corp	Other Pass-through	Nonprofit	Government	Total
Total	50.9%	31.1%	6.0%	5.1%	6.9%	100%
Agriculture, Forestry, Fishing & Hunting	76.5%	11.6%	12.0%			100%
Mining, Quarrying & Oil & Gas Extraction	55.8%	44.2%				100%
Utilities	51.4%	48.6%				100%
Construction	50.6%	23.4%	21.7%	4.3%		100%
Manufacturing	50.3%	40.4%	6.4%	2.8%		100%
Wholesale Trade	50.4%	42.8%	4.6%	2.2%		100%
Retail Trade	50.3%	45.1%	1.0%	3.6%		100%
Transportation & Warehousing	50.4%	46.5%	1.8%	1.4%		100%
Information	50.6%	48.2%	0.3%	0.7%	0.1%	100%
Finance & Insurance	50.4%	40.2%	1.7%	3.7%	3.9%	100%
Real Estate & Rental & Leasing	50.8%	36.6%	9.5%	1.8%	1.3%	100%
Professional, Scientific, & Technical Services	50.1%	35.0%	5.0%	7.5%	2.4%	100%
Management of Companies & Enterprises	51.0%	40.3%	2.5%	1.9%	4.3%	100%
Admin. & Support & Waste Mgmt & Remediation	50.5%	27.0%	15.4%	7.0%	0.1%	100%
Educational Services	50.3%	3.4%	2.2%	0.5%	43.6%	100%
Health Care & Social Assistance	54.7%	9.4%	3.1%	6.6%	26.1%	100%
Arts, Entertainment, & Recreation	51.9%	27.9%	1.6%	10.3%	8.2%	100%
Accommodation & Food Services	59.0%	29.3%	3.0%	8.7%		100%
Other Services (except Public Administration)	53.0%	5.9%	1.7%	1.3%	38.2%	100%

Corporate Income Tax Highly Concentrated

The extreme progressivity of California's income tax is often discussed as the prime source of volatility to state revenues. In the most recent tax year 2023 from Franchise Tax Board, only 0.7% of taxpayers (those with \$1 million or more AGI) paid 33.7% of the total personal income tax. Of these, only 0.03% (the 4,729 taxpayers of \$10 million or more AGI) paid 11.4%.

Less if ever acknowledged is that these conditions apply to the state's second largest revenue source, the corporate income tax, as well. In tax year 2023, only 0.5% (2,983) of all corporations (those with net income of \$10 million or more) paid 61.5% of the total tax. For C Corporations, only 0.5% (1,779) paid 84.0%. State tax and policy changes do not have to affect a large number of companies in order to have a potentially significant effect on state revenues.

These effects, however, are not always necessarily direct. Except for a few specified industries, corporate income is apportioned for state taxation purposes using the Single Sales Factor method.¹⁸ Under this approach, taxable corporate profits are apportioned to the state based on each company's share of sales within California. For example, if 8% of a company's domestic sales are in California, then in general 8% of its profits are subject to the state corporate tax. Tax or other policy changes may affect jobs, facility location, investment, and other business activities within the state, but as long as sales continue, tax revenues are not directly affected.

¹⁸ LAO, Understanding California Corporate Taxation: Apportionment, August 11, 2026.

The tax effect at least initially instead comes in through those jobs, facility locations, investment, and other business activities that in turn produce revenues from other taxes and fees. For example, the most recent report from Ernst & Young¹⁹ estimates that corporate income tax accounted for only 9.9% of all state and local taxes paid by businesses in California in FY24, and that total does not include the burgeoning number of state and local fees as well as the subsequent tax revenues supported by those jobs and each company's purchases. The point is that proposals that purport to target only a "few" businesses instead potentially affect a much broader swath of the state's economy as measured by both this tax factor and the previous employment factor.

California Jobs are Stagnant

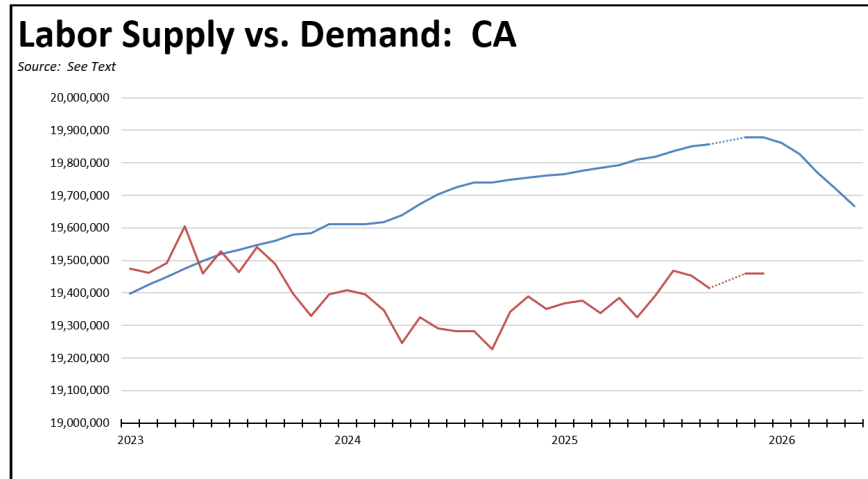
A maxim of economic policy is that the more you tax something, the less you get of it. The corollary is often embraced such as, for example, in California's recent enactment of \$750 million in tax credits through 2030 to promote film production, the recent resurrection of the state's electric vehicle subsidies, and a range of other tax credits and tax exemptions intended to promote various public policies such as the 8 separate tax credits enacted as part of the 2020-21 budget. The original, however, is often ignored particularly when the driving factor is short term needs for more revenue. In this instance, employment taxes raise the cost of those jobs to businesses and provide an incentive to reduce those jobs through various means such as reducing hours worked, reducing services or in-house or in-state operations, scaling back wage increases, shifting to workers with longer tenure and productivity that justify the cost increase, and substitution with technology such as automation and now AI.

California already is in a jobs-poor state:

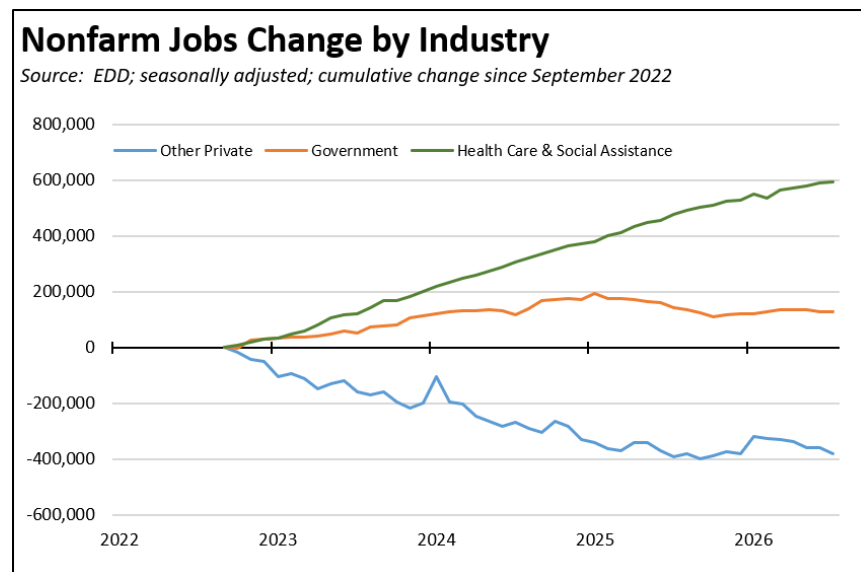
- In pre-pandemic 2019, EDD data shows California averaged an additional 21,200 nonfarm jobs a month (seasonally adjusted). The monthly average fell to 8,400 in 2023 and 2024, and fell further to 4,700 in 2025. While the January estimate saw a rise due to a high seasonal adjustment factor that month, the preliminary estimates for July indicate nonfarm jobs dropped by 11,300 in the 5 months since then.
- The labor force data shows even more pronounced retrenchment. In 2019, employment was rising an average of 18,900 workers each month. The monthly average was only 7,600 in 2023 and 2024, and 7,000 in 2025. Since the recent peak in December 2025, the number of employed workers has fallen by 241,300, while the labor force is down by 328,000 as unemployed workers have moved to the sidelines. While nonfarm jobs are up slightly, the number of employed workers is now even lower than it was in the pre-pandemic peak in 2020, down by 226,500.
- While the relevant data series has now moved from a monthly to an annual release, the US Bureau of Labor Statistics Job Openings & Labor Turnover Survey (JOLTS) indicates California ended 2025 with a substantial labor surplus of 419,000 workers due to the state's lagging jobs picture as businesses remained cautionary on expansion within the state. As shown in the chart, the demand for workers (measured by employment plus unfilled job openings from the JOLTS data) fell below the available supply (measured by employment plus the number of unemployed) beginning the first half of 2023. The supply

¹⁹ Ernst & Young, Total State and Local Business Taxes, State-by-State Estimates for FY24, December 2025.

has since fallen sharply to date in 2026, as employment has shrunk and as workers have given up their job search and left the labor force. Labor demand likely has since fallen by as much or more due to the dropping employment numbers combined with the weak job creation numbers.



- The jobs picture becomes even weaker when viewed by industry. Since the second half of 2022, all job creation in the state has come from government and from Health Care & Social Services. Employment in all other private industries has fallen by 381,000 compared to their peak in September 2022.



Government jobs would not be affected by the proposed tax, even though as discussed below these include a number of workers enrolled in Medi-Cal. Government jobs, however, depend on government revenues, and the weak job numbers should signal at least caution once the state runs through its current IPO and market driven revenue bump and has to begin relying more on the broader core tax base.

The growth in Health Care & Social Assistance jobs similarly relies heavily on public funding, especially the expansion of Medi-Cal in this period, the aging population increasingly using Medicare, and other public programs such as veterans' benefits. The same uncertainties underlying Medi-Cal enrollment consequently have implications to the job levels it currently supports, especially given the state's continued cycle of expanding then pulling back as the cost consequences of those expansions become known. As indicated previously, by employment about half this industry could be affected by the proposed tax as corporations, although a significant portion of the jobs growth shown in the chart comes directly from Medi-Cal spending. Total jobs in this industry grew by 593,600 in the period shown. Of these, data from the Department indicates minimum wage, part time In-Home Supportive Service (IHSS) workers employed to provide a Medi-Cal benefit provided 40% of the total. Depending on the county, some of these workers have access to limited health benefits, generally requiring them to pay a monthly premium, while others remain enrolled in Medi-Cal.

Other private industries cover the bulk of businesses that could be affected by the proposed tax, but as indicated these industries as a group are already reducing the number of jobs they have in the state. A more detailed industry look at this component shows there has been minor job creation primarily in the lower wage industry segment of this group in recent months, but these are also the wage levels that would see the greatest impact from the proposed tax.

Nonfarm Jobs Change by Detailed Industry

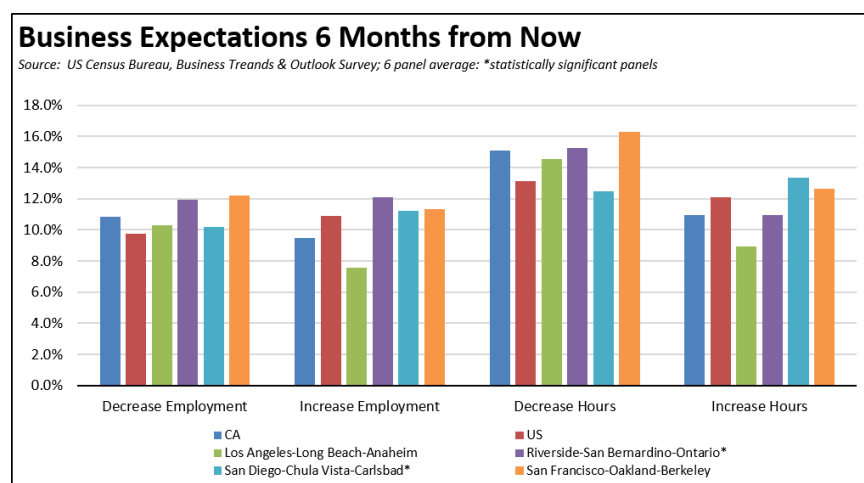
Source: EDD; seasonally adjusted; cumulative change from September 2022 thru June 2026

Government	128,500
Health Care & Social Assistance	593,600
Other Private Industry	-381,000
<i>Mining & Logging</i>	-1,200
<i>Construction</i>	-31,700
<i>Manufacturing</i>	-99,800
<i>Wholesale Trade</i>	-23,400
<i>Retail Trade</i>	-34,400
<i>Transportation, Warehousing & Utilities</i>	-16,100
<i>Information</i>	-109,800
<i>Finance & Insurance</i>	-50,400
<i>Real Estate & Rental & Leasing</i>	-4,900
<i>Professional, Scientific & Technical Services</i>	-47,700
<i>Management of Companies & Enterprises</i>	-10,900
<i>Admin. & Support & Waste Mgmt & Remediation</i>	-120,500
<i>Private Educational Services</i>	53,900
<i>Arts, Entertainment & Recreation</i>	41,700
<i>Accommodation & Food Services</i>	40,300
<i>Other Services</i>	33,900
Total Nonfarm Jobs	341,100

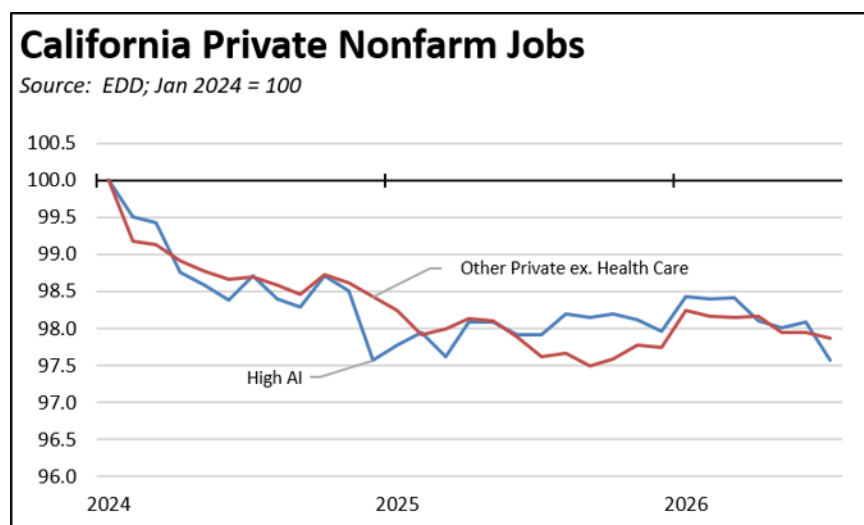
These conditions are unlikely to change. Insights on current business employment plans can be gained from the Census Bureau's Business Trends & Outlook Survey, a high frequency survey of business conditions covering both a standard group of questions along with others related to current events such as natural catastrophes and AI adoption. The survey covers about 1.2

million businesses split into 6 panels that respond sequentially over a 12-week period. The data covers all employer businesses in the US except farms.

Looking at the averages of the most recent 6 panel responses, a somewhat higher share of firms in California expect to reduce employment rather than increase it, with the overall balance leaning to a decrease especially in the Los Angeles area.



The same situation exists on expectations for hours worked six months from when the survey was asked, with California firms more likely to continue shrinking the available hours for their workers, as discussed below.



AI does not appear to be a factor. Removing the distorting effect of Health Care & Social Assistance and comparing the 5 highest AI Adapting Industries²⁰, job performance in the high AI Adaptors has been essentially the same as the other private industries, with that performance actually better in some recent months. California's current jobs-poor conditions are not the result of AI, but instead stem from the currently unfavorable business conditions including continued expansion of taxes, fees, and regulations.

²⁰ As determined from US Census Bureau, Business Trends & Outlook Survey.

California is Already Raising Taxes on Businesses

The proposed tax does not come in isolation but is the latest in a series of tax and comparable increases affecting employers in the state. The revenue estimates below come first from LAO documents and, if not available, from budget documents, bill analyses, and other specified sources:

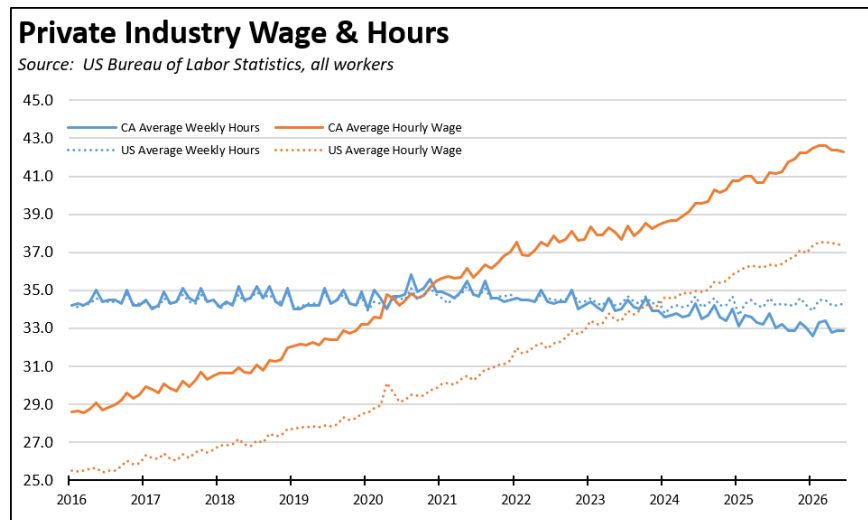
- In 2020, \$4.4 billion tax increase by suspending use of Net Operating Loss (NOL) deductions 2020-22 by businesses with \$1 million or more income and a \$5 million cap on the use of tax credits in the same period. The tax credit restriction was later lifted for 2022.
- In 2024, \$6.0 billion tax increase by reinstituting these provisions in 2024-2026.
- In 2026, enacted tax increase by extending the current tax credit limitations through 2029 and making the tax credit limitation permanent beginning in 2030, shifting to a maximum of \$5 million or 70% of tax liability. This new tax is estimated at \$1.0 billion in 2026-27, \$3.3 billion in 2027-28, and \$4.0 billion in the years after. The original credit limitations included a provision to provide tax refunds in future years, but this component also is being extended.
- In 2026, \$2 billion (state and local taxes) sales tax increase on digital software, intended primarily as a b-to-b tax.
- In 2026, up to \$1.4 billion increase from the revised MCO tax. This number is estimated based on the tax level of \$8.85 per person enrolled in an MCO, the estimated share of the population covered by employer health plans (2024) in California from Kaiser Family Foundation, Department of Finance population estimate for 2026, and the distribution of employer plan coverage by plan type (West region) from Kaiser Family Foundation 2025 Employer Health Benefits Survey. This benefit cost increase is likely to be passed onto employees either through premium increases or, if retained by the employer, lower wage increases.
- In 2026, \$1.6 billion in higher unemployment insurance tax payments²¹ as credits against the federal portion of the tax have been reduced due to California remaining the only state still carrying a debt from the pandemic period, currently projected to be \$22.0 billion by the end of 2026. This tax is rising at about \$400 million a year, potentially reaching \$7.2 billion as the federal credits are erased in line with expectations that under current policies, the state fund likely will remain permanently insolvent. Prop. 2 on the November ballot would make this debt eligible for repayment using the identified tax proceeds from capital gains, but the language does not guarantee that these repayments would be made.
- Restrictions on use of NOL and tax credits introduce yet another effective tax on employers. As the use of accumulated NOL and credits is spread out further into the future, their value declines due to inflation.

²¹ EDD, May 2026 Unemployment Insurance Fund (UI) Forecast.

- The state minimum wage continues rising at 40 to 50 cents an hour annually, while higher levels prevail for some industries and in some cities. The actual cost to employers includes the direct hourly cost for the covered employees, additional wage increases to avoid wage compaction for those in the subsequent wage levels, and additional payroll tax and benefit increases that are tied to the wage level. There are no available estimates of the total costs to California employers, but a generalized estimate (not including wage compaction costs) for the 2027 increase is \$2.4 billion, as detailed in the Data Notes section.

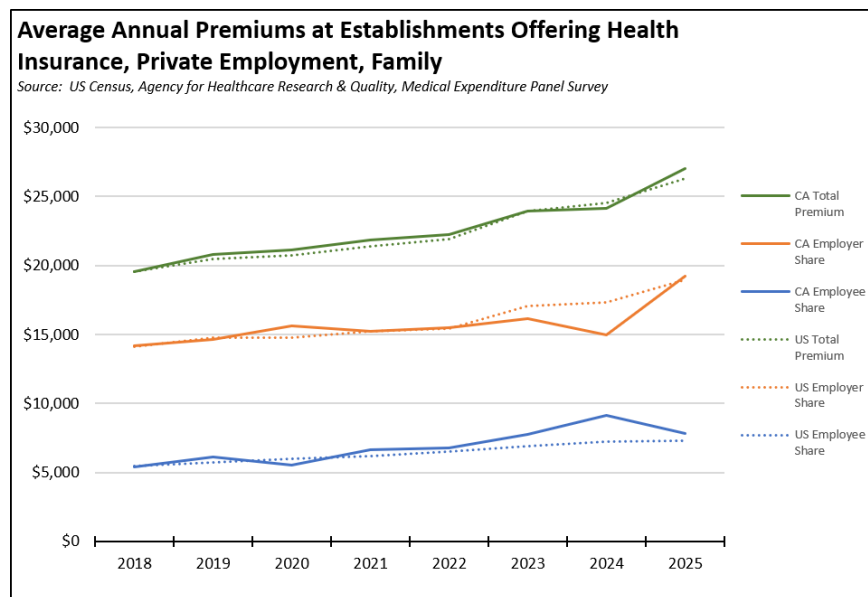
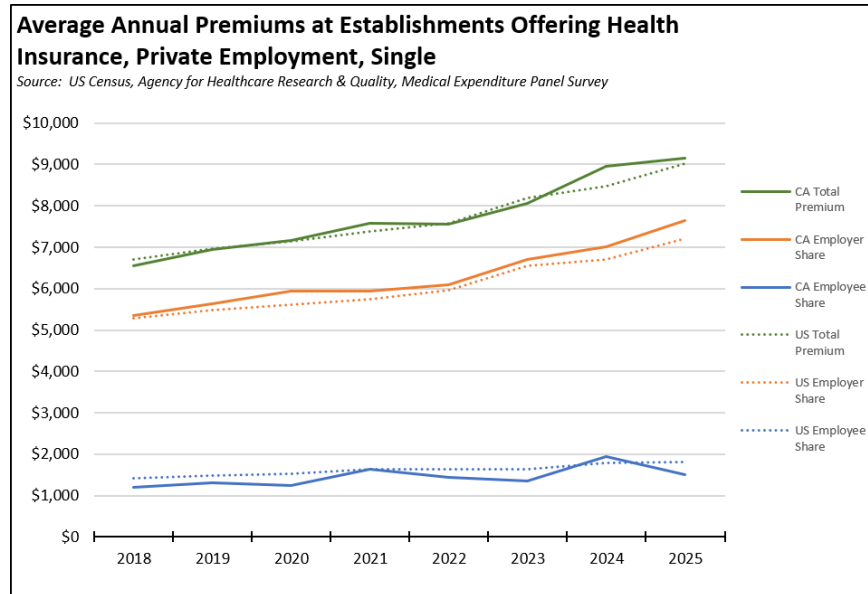
The effects of higher wages are already seen in reduced employment of youth and static employment of young adults, and declining hours worked as employers have adjusted to these higher costs. Since the state's current minimum wage structure was enacted in 2016, average weekly hours worked have declined by 1.4 hours (-4.1%). At the current average hourly wage in 2026, that drop translates into \$42 billion of foregone income. The effect varies by industry, ranging up to a 6.1.% drop for Leisure & Hospitality which has been the subject of higher minimum wage increases to a 7.7% drop for Trade, Transportation & Utilities which includes the large Retail Trade industry. Financial Activities is the only industry showing an increase, at 0.5%. In comparison, US average hourly wage has experienced the same growth rate overall, but average weekly hours essentially have been unchanged.

- These numbers do not include the effects of extending the current temporary personal income tax rates on high earners as proposed by Proposition 3. These additional taxes will affect the 42% (by employment) of businesses that are pass-through entities and generally taxed at the personal income tax rates. The previously referenced Ernst & Young report estimates that in FY 2024, 14.7% of all state and local business taxes in California were paid through the personal income tax compared to the 9.9% paid through the corporate income tax.



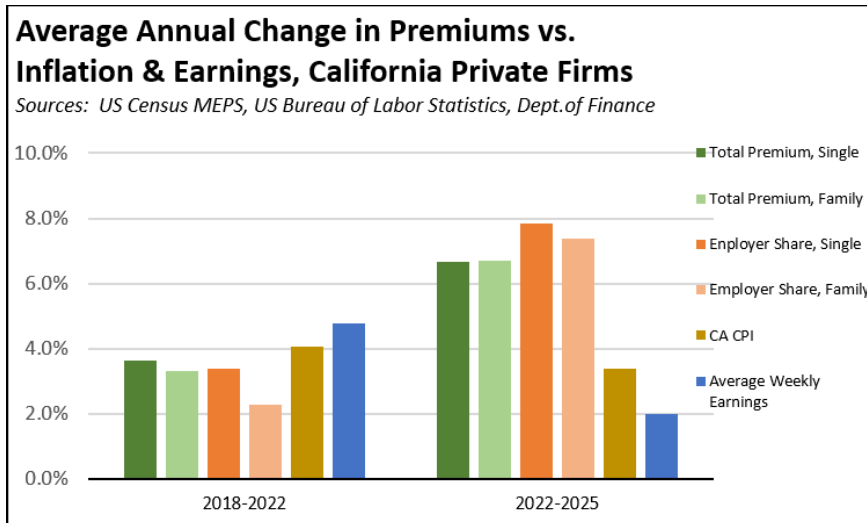
Employer Health Insurance Costs are Rising Faster in California

As indicated in US Census data,²² employer-based health coverage costs have accelerated since 2022. Total private company premium costs for single coverage rose 21.4% in California compared to 18.9% in the US average, while the employer share rose 25.4% compared to 21.1% for the US. Total premiums for family coverage rose 21.5% in California versus 19.8% for the US, while growth in the employer share was 23.8% and 22.9%, respectively.



In California (as in the rest of the US), private employer costs from providing health insurance since 2022 have risen faster than inflation and employee earnings, increasing the overall cost of employing workers.

²² US Census Bureau, Agency for Healthcare Research & Quality, Medical Expenditure Panel Survey.



While the data is not available by state, US Bureau of Labor Statistics compensation data for the Pacific Region states indicates the cost of benefits (including the various payroll taxes) rose 29.7% for private workers between 2022:Q1 and 2026:Q1, going from an average cost of \$13.38 an hour to \$17.36 on top of wages and salary. In this same period, the average hourly wage and salary rose 18.7%.

These costs are currently expected to continue on an upward trend. US employer health care costs were expected to grow 9.0% in 2026 (7.6% after plan design changes).²³ These costs are expected to rise at their highest rate in 2 decades in 2027, at an 11.1% increase.²⁴

Intersection of Employment & Medi-Cal

The premise of the proposed tax is that large companies are reaping benefits from employees enrolling in Medi-Cal rather than incurring the cost of providing them with employment based health plans. This size company, however, is required to offer health insurance to their employees. The federal Affordable Care Act (ACA, 2010) mandates that companies with the equivalent of 50 or more full-time employees offer affordable health insurance that meets minimum value standards. Employers must offer this insurance coverage to at least 95% of their full-time equivalent employees and to their dependents up to age 26. Qualified plans must cover at least 60% of the cost of services. Affordability is determined by an upper limit on the share of household income spent on insurance, with a safe harbor level based on applying the limit to the employee contribution cost for employee-only coverage and employee wages or salary (9.02% in 2025, 9.96% in 2026). For compliance purposes, full time is defined as working 30 or more hours a week but excludes seasonal workers employed for less than 6 months a year. Employers may not impose vesting periods longer than 90 days. Certain nonprofits and religious organizations are exempt from many of these requirements, while many companies especially larger companies often go beyond these minimums. Companies that do not comply with these requirements are subject to substantial fines.

²³ Business Group on Health, 2026 Employer Health Care Strategy Survey, August 2025.

²⁴ U.S. Workers Are Paying More for Healthcare, and Next Year Will Be Worse, Wall Street Journal, August 20, 2026.

In 2025, 97% of firms in California with 200-999 workers offered health benefits, while 100% of firms with 1,000 or more employees did so.²⁵ That year, 93% of firms with 50-199 workers offered these benefits, while the smallest employers were less likely to do so at 67%. The small employer share, however, was higher than the national average of 54% for this size group.

Because of the ACA requirements, there are situations where employees may still be covered by Medi-Cal:

- An employee may fall within a company's vesting period—which as indicated above cannot exceed 90 days for base coverage—but will subsequently be eligible for the company plan.
- The company does not provide or restricts coverage for seasonal, part time, or contract employees or offers different levels of health benefits based on length of employment. These limits vary by company, but are comparable to those maintained by the State of California,²⁶ which provides health insurance to employees with “permanent or limited term appointment of more than six months (at least six months plus one day) and a time base of half-time or more.” State health benefits, vesting periods for various levels of those benefits, and premiums also vary by employee bargaining unit.
- More often, an employee may be eligible for the company plan health but declines it for various reasons as discussed below. While this case covers a broader number than the previous, SB 177 specifies that the tax proposals are to cover “employees enrolled in the Medi-Cal program who are not offered employer health coverage.” SB 177 does not incorporate employees who decide not to take the company up on that offer.
- In recent years, employees may also be/have been enrolled in Medi-Cal simply because the system let them. As discussed previously, the continuous coverage requirement during the pandemic meant persons once enrolled in Medi-Cal remained on the rolls regardless of their changing circumstances. As shown in the earlier chart, this component is slowly unwinding now that annual redeterminations have been reinstituted, but through an extended process due to the condensed redetermination procedures followed until recently by the counties under a federal waiver which expired only last year.

Applying data from the Annual Social and Economic Supplement (ASEC) of the Current Population Survey as discussed in the Data Notes section below, the highest incidence of enrolled workers at 20% is among the self-employed. Overall, 28% of total enrollment are private wage and salary workers, while the 4% employed by government are not covered by SB 177 as are the self-employed.

²⁵ Kaiser Family Foundation, 2025 California Health Benefits Survey, November 13, 2025.

²⁶ California Department of Human Resources, Health Benefits, accessed August 17, 2026.

Medi-Cal Enrollment by Class of Worker

Source: calculations from ASEC, IPUMS.org

	Share of Segment	Share of Enrollment
Not Employed, all ages	32%	64%
Self-Employed	20%	4%
Private Wage & Salary	17%	28%
Public Wage & Salary	11%	4%
Total		100%

These numbers vary substantially by firm size; 40% of total enrolled private workers were employed by firms of 250 or more employees, while 60% were in the smaller firms less likely to offer employer health insurance. Looking at the 250+ category, an estimated 54% of these workers were offered employer insurance (6% of total enrollment or an estimated 845,000 in 2026-27). The remainder were in a firm this size not offering them insurance, for various reasons as discussed below. The potential universe for the required option under SB 177 consequently is an estimated 716,000. As discussed further in the next chapter, this amount is unlikely to be sufficient to reach the required revenue yield of \$2.3 billion, especially when accounting for the fact that the overlap between enrollment and employment will not be 12 months in all cases.

Medi-Cal Enrollment by Size of Firm (employees)

Source: calculations from ASEC, IPUMS.org, private wage and salary workers

	Under 250	250+
Enrolled Employees Offered Employer Coverage		
Share of Total Enrollment	7%	6%
Estimate, 2026-27	1,008,000	845,000
Enrolled Employees Not Offered Employer Coverage		
Share of Total Enrollment	10%	5%
Estimate, 2026-27	1,345,000	716,000

By selected demographics, Latinos make up around 60% of enrollment in all categories except employees offered employer coverage in the smaller firms, which instead is closer to their overall 41% share of total private wage and salary employment. Non-citizens are more variable, with higher shares of the enrollment in firms under 250 employees. If firms of 250 or more, their enrollment shares are closer to their overall 18% share of total private wage and salary employment. The non-citizen element, however, is likely underestimated due to lower if any response rates from undocumented immigrants.

Medi-Cal Enrollment by Size of Firm (employees), Selected Demographics

Source: calculations from ASEC, IPUMS.org, private wage and salary workers

	Under 250	250+
Latino		
Enrolled Employees Offered Employer Coverage		
Share of Total Enrollment	5%	4%
Estimate, 2026-27	443,000	505,000
Share of Enrolled Employees Offered Employer Coverage	44%	60%
Enrolled Employees Not Offered Employer Coverage		
Share of Total Enrollment	6%	3%
Estimate, 2026-27	853,000	447,000
Share of Enrolled Employees Not Offered Employer Coverage	63%	62%
Not a Citizen		
Enrolled Employees Offered Employer Coverage		
Share of Total Enrollment	2%	1%
Estimate, 2026-27	281,000	123,000
Share of Enrolled Employees Offered Employer Coverage	28%	15%
Enrolled Employees Not Offered Employer Coverage		
Share of Total Enrollment	3%	1%
Estimate, 2026-27	400,000	174,000
Share of Enrolled Employees Not Offered Employer Coverage	30%	24%

The reasons why enrolled employees are not covered by employer plans are summarized in the following table. From among employees who are not a policy holder for an employee-based policy, the first set of responses covers enrolled employees who indicated they were not offered employer coverage. Being a part time or seasonal worker was the dominant reason at 80%, followed by 9% of workers in their vesting periods but who will eventually be available for coverage, and 8% falling under the contract or temporary exemptions under the ACA.

For enrolled workers who were offered an employer plan but opted out, most (65%) did so because they were covered by another plan, primarily Medi-Cal or, in the case of their dependents, coverage under a spousal plan or other source. Economic reasons was the next largest response (42%), which when combined with the minor response (1%) for not needing health insurance indicates a preference for free health care while enabling higher disposable earnings by foregoing any employer plan premiums. Taking these two leading responses together also suggests a strong element of “the system let me” as a reason for employees remaining enrolled. As discussed previously, enrollment remained high during this period due to the lengthy unwinding process used by the state to transition from the pandemic continuous coverage requirement. The next two responses in the table reflect overlap with the previous set stemming from the way the survey is conducted, while other reasons come in at a nominal 3%.

Note that the numbers do not sum to 100% in both cases, as these questions are asked separately on the survey. Respondents consequently can answer “yes” to more than one reason.

Reasons for Not Being Covered by Employer-Based Health Insurance

Source: calculations from ASEC, IPUMS.org, enrolled private wage and salary workers

Ineligible for Employer Health Plan

Don't work enough hours per week or weeks per year	80%
Contract or temporary employees not allowed in plan	8%
Haven't worked for employer long enough to be covered	9%
Have a pre-existing condition	3%
Too expensive	4%

Offered but Did Not Purchase Employer Health Plan

Covered by another health plan	65%
Too expensive	42%
Don't need health insurance	1%
Haven't worked for employer long enough to be covered	1%
Contract or temp employees not allowed in plan	*
Other reason	3%

*less than 0.5%

Employment Impacts

Assumptions

The core assessment of the potential impacts on California businesses is done using the Forward Linkages component of the IMPLAN input-output model for California. Traditional input-output modeling is generally used to assess impacts coming from changes in production levels, measuring their ripple effects across the regional economy by looking at changes in what the impacted industries buy from other industries and institutions such as households through their production functions. Forward Linkages instead looks at what happens as prices and costs change. Price shifts through underlying changes such as from taxes that get passed on to customers have a similar ripple effect as other sectors buy the affected goods and services.

As with any standard input-output analysis, several assumptions have to be made including constant returns to scale, fixed production functions including the use of labor with no substitution, homogeneity within the modeled industries (i.e., all firms have similar production functions), no supply constraints, consistent technology, and except for the modeled components, constant prices. In the time frames considered in this report, these assumptions are generally applicable. While the periods may vary and generally depend on the velocity of money, the impact numbers from the IMPLAN results are generally treated as annual impacts.

SB 177 Required Tax Option Falls Short of Revenue Target

The core inputs for the analysis come from the affected enrollment estimates in the previous section. These could be used to construct a base case for an analysis. The results, however, would come out far short of the revenue expectations indicated in the Senate Democrats document. As reflected in the SB 177 findings and the Senate Democrats document, the proposed tax is predicted heavily on presumed widespread corporate misuse of the Medi-Cal program to “subsidize” their employment costs. The numbers don’t prove this out.

The following table shows possible variations of the required tax option in SB 177. Based on the estimated number of potentially affected workers in firms of 250 and more, the proposed tax of \$285 a month would yield less than half of the required revenues of \$2.3 billion if it was limited to C Corps. In order to reach that level, the charge instead would have to go to \$636 a month, resulting in an estimated tax surcharge of 32% on a minimum wage worker based on the average hours and weeks worked by this worker segment in 2024 and the 2027 minimum wage of \$17.40 an hour. Not all affected workers will be at the minimum wage, but this benchmark indicates the core effect of the proposed tax.

Expanding the tax to S corporations as well still falls short by nearly a quarter. The revenue target requires a tax of \$395, producing an effective tax surcharge of 20% on a minimum wage worker.

Even expanding the tax to all businesses including nonprofits still misses the revenue target by 12%. Nominally, the tax would instead have to go to \$324, creating an effective tax surcharge of 17% on a minimum wage worker. But even this expansion likely would still come up short. As indicated in the previous section, the 716,000 affected worker estimate is likely high given that the 2024 numbers are heavily skewed by the then-nascent unwinding process and do not

incorporate the eligibility changes in subsequent budgets. Adding to this consideration is that businesses are likely to respond to the tax by reducing at least some of their employment of workers likely triggering the tax, including reduction of part time and seasonal workers and replacement of these positions with added hours for other current workers and with technology.

Finally, the estimates are based on the average number of weeks worked. There is no comparable data on the number of months workers remained enrolled, only that they were enrolled at some point in 2024. While ASEC previously had a variable on this topic, 2018 was the last survey that had it. The estimates in the table instead assume workers remained enrolled throughout their entire work period. This does not have to be the case especially for workers still within the 90-day vesting period for employer-based coverage. The estimates in the table assume workers are enrolled in Medi-Cal the full 43 weeks they work on average in a year. The estimates further assume they are not eligible for an employer-based policy the entire time as well. Instances where these assumptions are not met—and there are likely many—would reduce the estimated tax yields even further.

Revenues for Potential Base Case

Source: see text; \$ in billions

	Estimate	Surcharge on Min Wage Worker
Enrolled Employees Not Offered Employer Coverage, firms of 250 and over	716,000	
Average Weeks Worked, 2024	43	
Average Weekly Hours, 2024	30	
SB 177 Required Option, C Corps @ \$285 a month	\$1.11	15%
SB 177 Required Option, C Corps @ \$636 a month	\$2.30	32%
SB 177 Required Option, C & S Corps @ \$285 a month	\$1.78	15%
SB 177 Required Option, C & S Corps @ \$395 a month	\$2.30	20%
SB 177 Required Option, all businesses @ \$285 a month	\$2.02	15%
SB 177 Required Option, all businesses @ \$324 a month	\$2.30	17%

Assumed Distribution of Proposed Medi-Cal Tax

Source: see text; \$million

	Tax Share	Tax Amount
Agriculture, Forestry, Fishing & Hunting	3%	\$68
Mining, Quarrying & Oil & Gas Extraction	0%	\$0
Utilities	0%	\$0
Construction	1%	\$27
Manufacturing	4%	\$100
Wholesale Trade	0%	\$9
Retail Trade	19%	\$447
Transportation & Warehousing	16%	\$373
Information	2%	\$38
Finance & Insurance	1%	\$23
Real Estate & Rental & Leasing	1%	\$34
Professional, Scientific, & Technical Services	4%	\$89
Management of Companies & Enterprises	0%	\$0

Admin. & Support & Waste Management & Remediation	4%	\$99
Educational Services	5%	\$115
Health Care & Social Assistance	11%	\$250
Arts, Entertainment, & Recreation	6%	\$149
Accommodation & Food Services	18%	\$408
Other Services (except Public Administration)	3%	\$72

There are other options that could be considered in the table, for example a tax on all employees who are enrolled in Medi-Cal regardless of whether they are eligible for employer coverage or not. However, the ACA requires these firms to offer health insurance. Nothing anywhere requires a worker to take it. Moreover, the current accelerated trend for employer coverage costs likely reinforces the economic balance causing many of these workers to remain with Medi-Cal, an economic decision made more rational by actions by the state to raise these costs even further such as the SB 125 MCO tax revisions that shift the tax burden to employer-based health insurance by up to \$425 annually for a family of 4.

The impact analysis instead uses an unspecified tax yielding the required \$2.3 billion. For the purposes of the modeling, distribution of this tax is still assumed to follow the distribution of the estimated 716,000 affected workers, as indicated in the previous table. Although the proposed tax likely would not become effective until later in the year, the estimates in the table are based on a 12-month period using the 2027 factors in order to produce an equivalent annual estimate.

The analysis is conducted for two cases:

- Base Case analyzes the potential impacts from a new, \$2.3 billion payroll tax, with details on how it is to be imposed yet to be determined.
- Cumulative Case analyzes the potential impacts in combination with the \$11.1 billion in additional business taxes and costs, including the minimum wage increase, that will be in effect in 2027, as detailed below.

Cumulative Employer Tax Increases

The other tax amounts included in the Cumulative Case are summarized below, along with how they were allocated for the IMPLAN model runs.

Estimated Other Private Employer Tax Increases, 2027

Source: see text

	Est. Amount (\$b)	Allocated by
Tax Credit Limits	\$3.3	R&D spending
Software Sales Tax	2.0	to software publishers
MCO Tax	1.4	private employment
UI FUTA	2.0	private employment
Minimum Wage	2.4	est. minimum wage employment
Total	\$11.1	
Medi-Cal Tax	2.3	est. enrolled employment
Total, Cumulative Case	\$13.4	

The amounts for Tax Credit Limits and Software Sales Tax were taken from the LAO. The Tax Credit Limits will predominantly affect the R&D Tax Credit. Allocation of the costs is consequently distributed by the most recent 2023 data on domestic R&D paid for and performed by company by industry from National Center for Science and Engineering Statistics and Census Bureau, Business Enterprise Research and Development Survey.

The MCO Tax is estimated as previously discussed in the section on health care costs.

The UI FUTA (Federal Unemployment Tax Act) tax shows the entire amount coming from the reduction in federal tax credits as the state's unemployment fund debt continues to rise. This tax on jobs exists because of state actions (rather than employers) that shut down jobs during the pandemic and similarly could be eliminated entirely at any point through state actions. For example, 21 states (and Virgin Islands) previously carried similar debts but used federal pandemic assistance funds to pay off this debt and in some cases restore their funds to pre-pandemic levels as well, as specifically allowed under the federal acts allocating those funds. California did not and instead spent those funds on other purposes even though the state generally received a higher portion of total assistance funds. Similarly, in the latest cash flow reports, California averaged \$86.1 billion in borrowable resources over the past 12 months, ending at \$79.5 billion in July²⁷ that could be used to amortize this debt to levels manageable through the annual budget—including potential authority in this November's Proposition 2 making this debt eligible for payment by the state's capital gains revenues—rather than continuing to burden job creation through higher payroll taxes.

The amount for Minimum Wage is a generalized estimate developed by applying the share of employees in the affected wage band estimated from the 2024 ACS microdata analyzed through IPUMS.org, applied to the 2025 QCEW average private wage and salary employment. The total amount was then estimated as the increment from the state-mandated increase including payroll taxes multiplied by average weekly hours worked and average hours worked weekly for the affected workers. The numbers were estimated using the state increment, but total costs will likely be higher due to higher local minimum wage requirements in several areas and to associated wage increases triggered by wage compaction in the subsequently higher pay levels. The estimates also assume no changes in employment due to the higher wage levels.

For simplicity in the IMPLAN calculations, two of the taxes are allocated according to private employment by industry. The actual distribution is likely to differ somewhat. For instance, the UI payroll tax is imposed on the first \$7,000 of wages, and consequently will affect industries with a higher share of lower wage employees, seasonal workers, or higher turnover for other reasons. The MCO tax will depend on businesses offering employer-based coverage which, as indicated previously in this report, differs somewhat by industry especially for those industries with a higher share of employment in firms with less than 50 employees. The differences, however, are likely to be minor from what is assumed.

Impacts on Firms: Price Effects

The effect on business costs was estimated using the Forward Linkages of the IMPLAN model, assuming the full cost increases from these taxes are passed on. Forward Linkages tracks the effects of price increases as they percolate through the economy, calculating both direct and indirect impacts. Induced impacts, coming from changes in demand from households, are not included, but are considered separately in the next section.

²⁷ State Controller, Statement of General Fund Receipts and Disbursements, July 2026.

Cost Impacts

Source: estimated using IMPLAN Forward Linkages; \$2027 billion

	Base Case	Cumulative Case
Direct Employer Impacts	\$1.7	\$9.9
Indirect Employer Impacts	0.8	4.3
Total Employer Impacts	\$2.5	\$14.1
Households	\$0.7	\$5.4
State/Local Government	\$0.2	\$1.4

In the table, Direct Impacts are the cost effects as business directly use higher cost commodities in their production of goods and services. Indirect effects measure the changes coming from their suppliers as they in turn use higher cost commodities in their own production. As with traditional input-output analysis, these changes have a multiplier effect as they ripple through the economy.

In the Base Case, the proposed tax if levied to produce revenues of \$2.3 billion would increase employer direct costs by up to \$1.7 billion and indirect costs by \$0.8 billion, for a total cost increase of \$2.5 billion. The cost of goods and services purchased by households would increase by an estimated \$0.7 billion and by state and local governments by \$0.2 billion. Note that the effect on state and local governments covers only direct purchases of final goods and services. The effects on government enterprises such as utilities, ports, and airports are incorporated into the direct and indirect impacts.

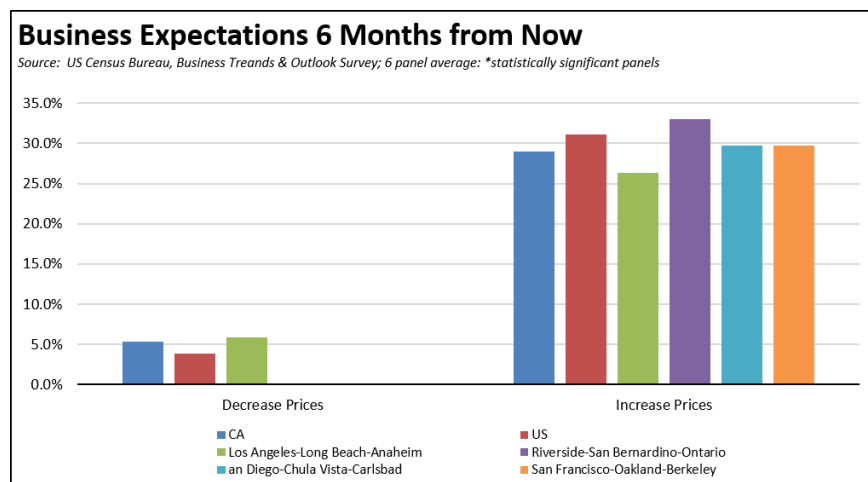
In the Cumulative Case considering all new business taxes, employer direct costs would increase by up to \$9.9 billion and indirect costs by \$4.3 billion, for a total cost increase of \$14.1 billion. The cost of goods and services purchased by households would increase by an estimated \$5.4 billion and by state and local governments by \$1.4 billion.

These estimates will vary depending on the extent to which these new taxes are passed on in higher costs. In general, a portion of any new cost may be absorbed by capital rather than labor (households) especially in cases where that cost is generally applied within the market in which a firm operates. These taxes are not and are unique to operating in California. Temporary taxes especially lower cost items are more likely to be absorbed—for instance, the recent lagged delay in passing on tariff costs following their initial enactment—but taxes which are essentially permanent such as the proposed and the other new business taxes become part of the cost function if not immediately then over time—for instance, the subsequent passing on of tariff costs as they became more prevalent along with recent announcements such as from Walmart and other companies that they intend to use the subsequent tariff refunds to lower prices.^{28, 29} Larger companies, such as those targeted by the proposed tax, operate in a market defined by multiple if not all the states, and individual operating units must meet basic operating performance in order to justify continued investment. Smaller companies with smaller operating margins faced with higher costs especially California's environment of continually increasing costs often have little choice other than to pass on these costs in order to survive.

²⁸ Walmart Plans to Use \$2.9 Billion Tariff Refund to Keep Prices Low, MSN.com, August 22, 2026.

²⁹ Companies Plow Tariff Refunds Into Price Cuts, Appealing to Stretched Consumers, Wall Street Journal, September 1, 2026.

Passing through costs also becomes more likely in an environment of increasing prices where they become one factor in an overall set of cost recovery. National factors such as rising oil prices and tariffs play a role in this situation, but California companies operate in a higher cost environment especially in higher costs for labor, land and structures, taxes and fees, energy, insurance, and time related costs due to protracted and typically multi-layered government requirements. Already, just below a third of companies of California expect to continue raising prices, as reflected in the most current responses to the Census Bureau Business Trends & Outlook Survey. The share of firms expecting to reduce prices is far below this level at around 5%. Note that the “decrease prices” responses are not statistically significant for 3 of the MSAs.



The incidence of these costs will also vary with a significant portion exported through domestic and foreign exports and through industries such as tourism. The IMPLAN output provides direct estimates of these components in order to refine the portion that is passed on to households. As taken from the previous table and using Department of Finance projections, those costs average out to \$53 per household in 2027 in the Base Case.

Economic & Fiscal Impacts

Economic Impacts

Economic impacts are estimated from the cost effect on households calculated in the previous section. As costs rise, households are assumed to reduce spending overall by this amount as they rebalance to stay within their available resources and budget. The consequent impacts are from these induced effects.

The Base Case proposed Medi-Cal tax would eliminate up to an estimated 3,300 jobs while reducing labor income (wages and benefits) by \$266 million. The state GDP would drop by \$511 million—equivalent to 0.5% of the state's GDP increase between 2024 and 2025—and total output by \$792 million.

Combined with the other new taxes in 2027, jobs would fall by 24,000—equivalent to 42% of total nonfarm jobs growth in 2025—and labor income by \$1.9 billion. State GDP would fall by \$3.7 billion—equivalent to 3.7% of the 2025 increase—and total output by \$5.7 billion.

Economic Impacts

Source: estimated using IMPLAN; \$2027 million

	Base Case	Cumulative Case
Employment	-3,300	-24,000
Labor Income	-\$266	-\$1,919
State GDP	-\$511	-\$3,687
Output	-\$792	-\$5,711

Fiscal Impacts

These impacts would also affect state and local government finances. Offsetting the state's revenue gains, the associated drop in state and local revenues and previously estimated increase in their costs (including local government enterprises) results in fiscal impacts of \$285 million under the Base Case. The broader tax increases under the Cumulative Case result in fiscal impacts of an estimated \$2.0 billion.

Fiscal Impacts

Source: estimated using IMPLAN; \$2027 million

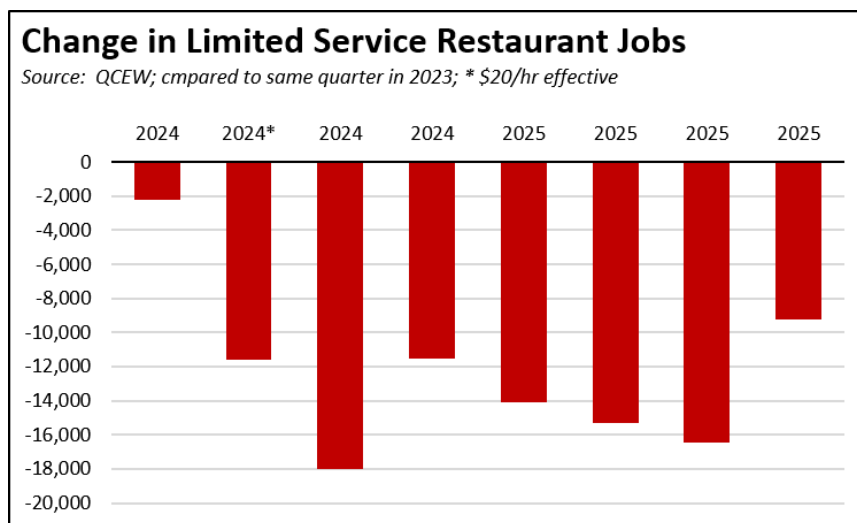
	Base Case	Cumulative Case
State Government Revenues	-\$33	-\$186
Local Government Revenues	-26	-239
State & Local Acquisition Costs	-174	-1,250
Local Government Enterprise Costs	-52	-311
Total	-\$285	-\$1,985

Unemployment Impacts on State Budget

Induced Changes to Labor

As detailed in the previous section, the economic effects of the proposed Medi-Cal tax are estimated to result in job losses of 3,300. This estimate as indicated previously assumes that companies maintain their current production functions including labor use. Additional job losses are also likely as companies shift their labor mix and seek to reduce their exposure to this tax along with the likely higher regulatory burdens and litigation risks associated with it. Beyond this factor, the higher compensation costs coming from the tax in conjunction with perpetual rises in the minimum wage alone are also likely to see companies replacing lower skill and temporary workers with higher productivity employees justifying these higher costs. Rising labor costs will also make it increasingly more economic to replace these worker with technology applications including but not limited to AI.

While not all workers potentially affected from this factor will necessarily be at minimum wage, previous studies on this issue can be used as the basis for estimates. Meta analysis in a 2022 paper³⁰ reviewed all then-existing minimum wage studies published since 1992. Looking at the studies with statistically significant quantitative results, the meta analysis found a median employment elasticity of -0.115, meaning that for every 1% increase in the minimum wage, employment changes could be expected at a loss of 0.115%.



California policy provides a recent example to test the applicability of this estimate. The \$20/hour fast food worker minimum wage went into effect in April 2024, representing a 25% increase in the minimum wage for these workers. Applying the elasticity, employment

³⁰ David Neumark and Peter Shirley, Myth or Measurement: What Does the New Minimum Wage Research Say About Minimum Wages and Job Loss in the United States?, National Bureau of Economic Research, Working Paper 28388, Revised March 2022.

consequently should have been expected to drop by 2.9%. Applying this factor to Limited Service Restaurants which contains the affected industry components, that 2.9% factor results in an expected loss of 21,000. Actual losses were close to this estimate at 18,000, as shown in the change in jobs calculated by comparing the same quarter in each year (to account for seasonal changes) from the QCEW data.

Applying the elasticity to the estimated 716,000 affected workers, expected job losses would be up to 12,000 to 14,000 workers depending on whether the tax is \$285 per month applied to all businesses of 250 or more employees (15% rise in effective minimum wage) or \$324 per month (17% increase) as required to achieve the expected yield.

Additional State Fiscal Impacts

Additional effects on the state budget will come as these workers shift from earned income to unemployment, with the prospects for finding a replacement job diminished under the state's current jobs-poor economy. In order to provide an upward bound on the estimates, the calculations are made from the following assumptions:

- The baseline is defined as 2027 with the proposed tax being in effect. While the tax likely would not become effective until later that year and the new Medi-Cal fee not until July, all calculations are based on 12 months in order to produce equivalent annual estimates.
- Laid off workers have a high probability of remaining unemployed at least for an extended period due to the state's soft labor market, as reflected by the substantial number of workers now leaving the labor force after failing to find jobs. These workers also are assumed to remain in California rather than moving to another state where jobs are being created. As the period of unemployment lengthens, however, previous studies have shown that workers face diminishing prospects of finding another job, and if they do, both their potential and future earnings decrease as well. In other words, the longer they remain unemployed, the higher their likelihood of remaining on Medi-Cal even after finding a new job.
- All laid off workers are assumed to be enrolled, not because companies will target enrolled workers but because the most likely reduction of jobs will come from those associated with enrollment (see previous discussion), specifically part time and temporary slots.

Demographic Profile, Enrolled Employees Not Offered Employer Coverage

Source: calculations from ASEC microdata, IPUMS.org

	Total Enrolled
Married, no children	9%
Single, no children	44%
Married, 2 children	30%
Single, 2 children	17%

- State fiscal impacts will vary depending on the child status of the unemployed workers. Workers with children (average estimated from ASEC microdata) will likely show no change in Medi-Cal enrollment or costs from this program to the state, but loss of a job would result in reduced revenues from the proposed tax. Able-bodied adults with no children instead will have an effect. The impact to the general fund, however, will be minor but positive as the state only covers 10% of the cost. The impact to federal funds will be greater but negative, as this source covers the remaining 90%. Working, these workers remain eligible for enrollment largely paid for by someone else (the federal government). Not working, they likely will become ineligible unless they meet the H.R. 1 exemptions including finding replacement work at the equivalent of at least one day a week. For the calculations, laid off workers are assumed to follow the demographic profile of the previously estimated 716,000 affected workers indicated in the table above, with childless adults averaging 53% of the total. A portion may be able to secure new employment and regain eligibility, but the calculations assume they will not in order to provide an upper bound estimate.
- Cost impacts will depend on the number of benefit programs the affected workers access both before and after losing a job. In general, persons do not enroll in all benefit programs for which they are eligible in large part due to the transactional burdens coming from becoming and subsequently remaining enrolled in multiple programs. While enrollment in some benefit programs results in automatic eligibility for others, previous analyses³¹ indicate that persons enrolled in Medicaid or receiving the Earned Income Tax Credit (EITC) were the least likely to be enrolled in multiple social benefits programs. This situation is likely to reverse for any laid off workers.
- For the calculations, affected workers already enrolled in another program (as calculated from the ASEC microdata) are assumed to remain enrolled. Additional costs would arise as the workers access other programs beyond Medi-Cal. Included in the calculations are changes to: CalFresh (food stamps), unemployment insurance, EITC, energy assistance, and CalWORKS, although it should be noted that CalWORKS also has welfare-to-work requirements. Not all programs are included such as SSI/SSA, WIC, housing assistance, disability, local utility low income subsidized rates, general assistance, tuition assistance, job training, and others due to more limited applicability or availability. The subsequent costs are therefore likely to be higher than shown in the estimates. For married workers, spouses are assumed to have earned income equal to the average for this population segment.
- Benefit estimates generally are based on the maximums available at the estimated income levels and marital/child status. Medi-Cal benefits are the average benefit amount from the Department's most current Local Assistance Estimate report. Distributions by fund source are from budget documents.

³¹ Suzanne Macartney and Robin Ghertner, How Many People that Receive One Safety Net Benefit Also Receive Others?, US Department of Health & Human Services, Office of Human Services Policy, January 20, 2023.

Estimated Change in State Assistance Costs

Source: see text; \$million

	12,000 Workers			14,000 Workers		
	State	Federal	Total	State	Federal	Total
Medi-Cal Benefits	\$8.4	-\$75.3	-\$67.0	\$9.8	-\$87.9	-\$78.1
Medi-Cal Fee	-2.3	0.0	-2.3	-2.7	0.0	-2.7
Medi-Cal Tax	-34.2	0.0	-34.2	-45.4	0.0	-45.4
Unemployment Insurance	-100.5	0.0	-100.5	-117.2	0.0	-117.2
CalFresh	-0.6	-69.9	-70.4	-0.7	-81.5	-82.2
CalWORKS	-9.1	-18.6	-27.6	-10.6	-21.6	-32.3
LIHEAP	0.0	-14.3	-14.3	0.0	-16.6	-16.6
State EITC	0.2	0.0	0.2	0.2	0.0	0.2
Total	-\$138.1	-\$178.0	-\$316.1	-\$166.6	-\$207.7	-\$374.3

In the table, the state portion of Medi-Cal Benefits and State EITC are positive as these are costs the state would no longer incur. Overall, additional state benefit costs would increase by up to \$316 to \$374 million, with about 44% coming from state funds.

Combined with the estimates from the previous section, additional costs to the state would offset about 20% of the potential revenue yield from the proposed tax.

Although not included in these estimates, persons without health insurance are subject to a state penalty of \$950 per adult and \$450 per dependent child under 18 when filing an income tax return. Although there are exemptions, able bodied childless adults losing their jobs and consequently Medi-Cal coverage as a result of the proposed tax could also be subject to this penalty, increasing state revenues by up to \$6-7 million.

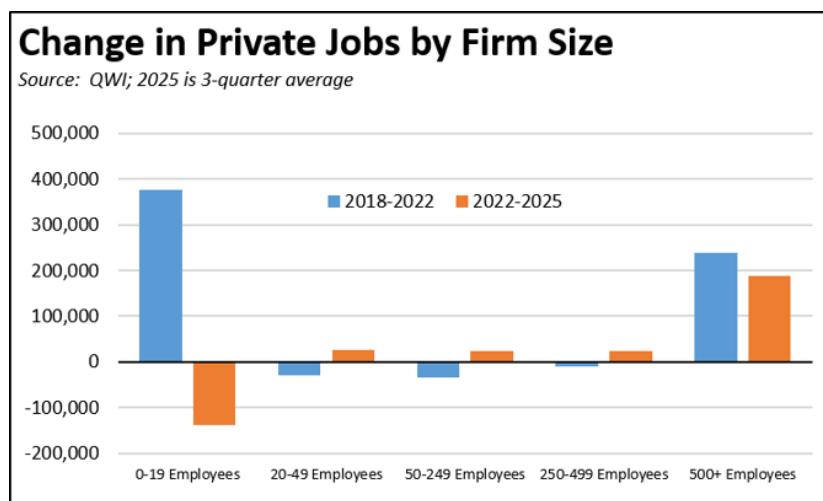
These numbers, as indicated, are based on incremental changes from the current enrollment status of the affected workers, both in Medi-Cal and the other benefit programs. This baseline does not have to be the case. Employed, workers have the opportunity to promote, becoming both eligible for employer coverage and receiving increased earnings to afford that coverage as well as emerging from state assistance. Unemployed, these workers especially in the state's current soft labor market are likely to face extended periods where they remain dependent on those programs. Accounting for this factor, the unemployment impacts on the state budget would be increased by up to \$316 to \$369 million in ongoing costs, bringing the total offset to about a third of the potential revenue yield from the proposed tax.

Other Impacts

The previous sections discussed the potential impacts that can be quantified. Other factors that are instead discussed in generalized terms include the following:

- **Increased Compliance Costs.** Regardless of potential tax liability, the proposed tax would impose yet another compliance burden on companies this size to report on potentially affected employees as well as the costs of challenging any subsequent inaccurate tax billings.
- **Perverse Effects on Universal Coverage Goals.** The estimates indicate that just over half of the employees likely triggering the proposed tax are adults subject to the work/community engagement requirements of H.R. 1. Working, they are fully in compliance with these requirements and remain eligible for health care coverage. Unemployed as the result of the proposed tax especially in the state's current soft labor market, they are more likely to lose coverage. Employed, they retain coverage largely using "other people's money" (the 90% federal FMAP). Unemployed, they remain on their own or covered only through some future expansion of the state-only portion of Medi-Cal. While the requirements can be met in several ways including finding reemployment at the equivalent of only one day a week, projections by both the LAO and the Department are based more on these workers not being able to transit the state and county application/redetermination processes rather than complying with the requirements themselves. This barrier is unlikely to change.
- **Another Hurdle in the Way of Jobs Growth.** In a gesture presumed to reduce potential impacts on small business, new regulations/taxes with a significant cost increasingly incorporate either a trigger level or phase-in process based on the number of employees. The ACA employer health insurance mandate kicks in at 50 employees. State and local regulations typically use 25 or 50 employees. The proposed tax would add a new hurdle at 250.

In doing so, this approach adds a potential barrier to business expansion. For example for a firm with 50 part time and 249 total employees, the marginal cost under the proposed tax is not \$3,240 to pay the tax for that one employee, it is \$165,240 to cover that employee along with the 50 other current employees.



In part as a result of these proliferating hurdles especially on the state and local level, movement between the middle firm size categories has been minimal. Dynamism in job creation has been more at the lower entry level and at the largest size firms with more capacity to adjust to these changing cost constraints. Firms just below the regulatory/tax trigger levels instead often forego incremental job changes, waiting until more major expansion opportunities arise to amortize the sizeable marginal cost increases or instead choose to make their expansions in another state.

- Uncertainty in the Tax. The principles of fair tax policy generally require that a tax is easy to understand, equitable, and consistent over time. An employer's potential exposure under this proposed tax, however, is subject to frequent changes not from their decisions but decisions by the state on Medi-Cal eligibility. As discussed previously, eligibility has varied considerably over the past 12 years. The proposed tax provides an automatic revenue source to facilitate further changes going forward.

In this respect, the proposed tax also represents yet another precedent to create a broader payroll tax to fund the state Medi-Cal program. Few taxes once introduced have escaped the tendencies to broaden their base and rates. The state has already breached this precedent through its new MCO tax under SB 125 that taxes the benefit portion of employee compensation. The proposed tax would begin the structure of a tax on the earnings portion as well.

- Impacts on Recidivism. The primary workers triggering an employer's exposure to the proposed tax are part time workers and seasonal/temporary workers that are exempt from the ACA employer insurance mandates. Another potentially identifiable group covers persons who were recently incarcerated and who were automatically enrolled under the state's waiver. These workers would trigger the proposed tax only if they were in a job covered by the ACA exemptions as long as the tax applies only to enrolled workers who were not offered employer health coverage. Others, however, have expressed concern that the proposed tax would raise further barriers to employment for the formerly incarcerated.³² Previous studies have indicated that the primary indicator of recidivism is poverty.³³ Others have concluded that recidivism can be cut by 40% for persons finding work within a year.³⁴

³² California's "Fair Share" Proposal Could Lead to Unfair Hiring, Advocates Warn, Sacramento Bee, August 12, 2026.

³³ Lucius Coulote and Daniel Kopf, Out of Prison & Out of Work: Unemployment Among Formerly Incarcerated People, Prison Policy Initiative, July 2018.

³⁴ U.S. Sentencing Commission, Measuring Recidivism: The Criminal History Computation of the Federal Sentencing Guidelines, Research Series on the Recidivism of Federal Guideline Offenders, Release 1, May 2004.

Data Notes

General

All data from the American Community Survey (ACS) and Annual Social and Economic Supplement (ASEC) to the Current Population Survey was analyzed using the microdata accessed through University of Minnesota, IPUMS.org.

All data was analyzed using base year 2024 real dollars and reported in 2027 dollars using the US CPI-U as the deflator. Projections are taken from the most current Department of Finance economic projections used as the basis for the budget revenue estimates.

Data using Quarterly Census of Employment & Wages (QCEW), including Quarterly Workforce Indicators (QWI) and Business Dynamics Statistics (BDS) which are derived from that series, covers wage and salary employees subject to state unemployment insurance taxes and Unemployment Compensation for Federal Employees program. This data is an actual count as opposed to the monthly job numbers that are estimates based on surveys and models calibrated with the QCEW data. The data covers about 95% of all wage and salary workers. Primary exceptions are self-employed workers, most agricultural laborers, domestic service workers in homes, casual labor not part of an employer's trade, railroad workers, and certain nonprofit employees. Other than the agricultural component, these exceptions do not significantly affect the data used in the report.

Workers Enrolled in Medi-Cal

Both the ACS and ASEC can be used to estimate the number of affected workers potentially subject to the proposed tax. Both sources, however, produce total enrollment estimates well below the actual numbers, and distributions calculated from these sources consequently are more useful than the numerical estimates, both total and those enrolled through Medicaid. The ASEC contains a firm size variable in keeping with the particulars of the proposed tax, while the ACS data does not. The ASEC estimates therefore are used to produce the base estimates. All ASEC results are calculated for California from the microdata accessed through University of Minnesota, IPUMS.org. Numerical estimates in the tables are calculated using the ASEC distributions applied to the Department's enrollment projections for 2026-27.

Use of ASEC, however, has to acknowledge the relatively small size of the sample. While national estimates are generally statistically significant, the significance levels become more of an issue when looking at the California, and significance declines with finer slices of the data. To simplify the tables, standard errors are not shown, and data is used as estimated from the microdata in the calculations and subsequent entry data for the IMPLAN modeling.

Results using the variable for Medicaid enrollment in the previous year are the same as those using the variable covering Medicaid and other means-tested public health insurance, and is therefore assumed to encompass Medi-Cal enrollment as survey responders are unlikely to be aware of the bureaucratic distinctions. Due to a likely much lower if any response rate for this group, use of the ASEC (as well as ACS) data likely undercounts undocumented immigrants on the Medi-Cal rolls, however. On the other hand, total Medi-Cal enrollment in 2024 remained

elevated due to the pandemic continuous coverage requirement, with the numbers only gradually being unwound as the result of the annual redeterminations that restarted in April 2023 using condensed procedures under the federal waiver. The 2024 numbers also do not include eligibility changes in the 2026-27 budget acts along with the Department's current implementation approach to the various H.R. 1 provisions. No adjustments are made for either factor. Combining both sources of variation, the numbers in the document likely overstate the numbers subject to the proposed tax, and therefore represent more of a conservative estimate.

The ASEC firm size variable covers firms of 100 to 499, 500-999, and 1,000 and over. While the results for the first category are much smaller in each instance, these are still broken down at the 250 cut point from estimates using the distribution from the size of business data shown earlier in this report.

The number of enrolled employees who are not offered employer coverage is estimated through a two-step process. The HIOFFER variable defines the universe of employees (excluding self-employed) who are not the policy holder of any current employer-based health insurance coverage. Those answering "no" likely include part time, seasonal, or other employees falling under the ACA exemptions and cover a portion of employees that likely would be subject to a tax under the SB 177 provisions. However, this group could also include workers covered through spousal employer coverage, and is another source of potential overestimation in the results. Those answering "yes" define the portion that is in a situation where insurance would normally be offered. There is a substantial NIU (not in universe) component covering enrolled employees, but these consist of persons with employer-based coverage likely previously enrolled or enrolled as the result of the state's drawn-out unwinding process.

For persons responding "yes" to this variable, the HIELIG variable then asks whether they think they could be eligible for employer coverage. Those answering "no" are added to the previous amount. Subsequent variables drill into reasons why these persons are ineligible and why they chose not to enroll in an employer plan.

There is a time disconnect in these variables. They are asked for current enrollment, while the previous questions cover employment and enrollment status in the previous year. While data from the 2024 ASEC consequently could be used to calculate these elements, the stronger effect from the unwinding factor that year favors use of the 2025 data instead.