# California State Assembly

# Assembly Budget Agenda

## Assembly Budget Subcommittee No. 1 on Health

**Assemblymember Dawn Addis, Chair**

**Monday, May 19, 2025**

**2:30 P.M. – 1021 O Street, Room 1100**

## May Revision Hearing

**Items To Be Heard**

# Items To Be Heard

## 4260 Department of Health Care Services

### Issue 1: May Revision Overview & Medi-Cal Proposals

**General Budget Overview at May Revision**

The Department of Health Care Services (DHCS) is the state agency responsible for financing and administering the state's Medicaid program, known as Medi-Cal, which provides health care services to low-income persons and families who meet defined eligibility requirements. Medi-Cal is authorized and jointly funded through a federal-state partnership, and covers physical health, mental health, substance use disorder, services, pharmacy, dental, and long-term services and supports.

For 2025-26, the Governor's May Revision proposes a total of $200.6 billion and 4,749 positions for the support of DHCS programs and services. Of that amount, $1.4 billion funds state operations (DHCS operations), while $199.3 billion supports local assistance (funding for program costs, partners, and administration). The position count for 2025-26 includes the changes requested via budget change proposals.

The total DHCS budget broken down by fund sources is shown below:

| Fund Source | FY 2024-25 (Enacted Budget) | FY 2024-25 (Revised Budget) | FY 2025-26 (May Revision) |
|---|---|---|---|
| General Fund | $ 35,730,880 | $ 38,267,153 | $ 45,270,246 |
| Federal Fund | $ 99,545,314 | $ 109,838,163 | $ 119,809,632 |
| Other Funds | $ 31,027,065 | $ 37,337,762 | $ 35,564,693 |
| **TOTAL** | **$ 166,303,259** | **$ 185,443,078** | **$ 200,644,571** |
| *Staff Positions* | *4,688* | *4,688* | *4,749* |

**Dollars in thousands*

## Medi-Cal Funding

The Department estimates Medi-Cal spending to be $179 billion total funds ($37.4 billion General Fund) in 2024-25 and $194.5 billion total funds ($44.6 billion General Fund) in 2025-26. The table below shows a high-level breakdown of Medi-Cal spending by source of funds.

| Fund Source | 2024-25 (Enacted Budget) | 2024-25 (Revised Budget) | 2025-26 (May Revision) |
|---|---|---|---|
| **MEDICAL CARE SERVICES**** | | | |
| General Fund | $ 33,384.1 | $ 36,027.0 | $ 43,300.8 |
| Federal Fund | $ 92,944.8 | $ 102,454.0 | $ 112,751.3 |
| Other Funds | $ 27,357.2 | $ 32,890.9 | $ 31,008.7 |
| **TOTAL** | **$ 153,686.1** | **$ 171,371.9** | **$ 187,060.8** |
| **COUNTY ADMINISTRATION***** | | | |
| General Fund | $1,638.6 | $ 1,409.0 | $1,308.9 |
| Federal Fund | $5,565.8 | $ 6,180.3 | $6,022.6 |
| Other Fund | $71.5 | $ 44.2 | $ 125.1 |
| **TOTAL** | **$7,275.9** | **$ 7,633.5** | **$7,456.6** |
| **TOTAL MEDI-CAL PROGRAM EXPENDITURES** | | | |
| General Fund | $35,022.7 | $ 37,435.9 | $ 44,609.7 |
| Federal Fund | $98,510.6 | $ 108,634.3 | $ 118,773.9 |
| Other Fund | $27,428.7 | $ 32,935.1 | $ 31,133.8 |
| **TOTAL** | **$160,962.1** | **$ 179,005.3** | **$ 194,517.4** |

*dollars in millions

**Medical Care Services captures a wide range of expenditures related to health care delivery (payments to plans and providers, pharmacy benefits, behavioral health services, long-term services and supports, etc.)

***County Administration refers to funding provided to counties to support administrative functions of the Medi-Cal program, such as eligibility determination and enrollment.

## Medi-Cal Cost Increases

In the 2025-26 Governor's Budget, the November 2024 Medi-Cal Estimate was projected to have a $13.7 billion increase in total spending and a $2.6 billion increase in General Fund spending in 2024-25 compared to the May 2024 Medi-Cal Estimate, including authority from all previous budget acts. Estimated spending from just the 2024 Budget Act was up by $2.8 billion.

The Legislature provided an additional $2.8 billion in General Fund authority for 2024-25 through early action Assembly Bill 100 (Chapter 2, Statutes of 2025). The May 2025 Estimate projects additional benefits spending of $2.1 billion in 2024-25, to be covered by the Medical Providers Interim Payment Fund loan authorized in 2024-25.

According to the Department, major factors driving the change in estimated General Fund in 2024-25 compared to the 2024 Budget Act include:

1- An over $2 billion offsetting reduction in General Fund costs related to the MCO Tax. Compared to the 2024 Budget Act, the Governor's Budget projected a $453.7 million reduction in General Fund costs related to Proposition 35 passed by voters in November 2024. The Governor's Budget also projected an additional $478.7 million reduction in General Fund costs related to approval of an amendment to the MCO Tax related to consideration of Medicare revenue back to January 2024 instead of April 2024. The May Revision estimates an additional $1.1 billion in additional support for the Medi-Cal program compared to the Governor's Budget.

2- A $3.8 billion increase in costs for Unsatisfactory Immigration Status (UIS) members. The increase is primarily driven by higher than anticipated enrollment and higher than previously estimated average costs for various services.

3- Various increases in base costs for the non-UIS population due to higher projected enrollment (due to the continuation of unwinding flexibilities) and higher utilization:

   - Approximately $1.5 billion related to managed care.
   - Approximately $700 million related to pharmacy.
   - Approximately $300 million related to other fee-for-service (FFS) costs.
   - Approximately $180 million related to dental services.

4- $311 million in General Fund costs to repay a Medical Providers Interim Payment Fund loan for 2023-24.

## Medi-Cal May Revision: Cost-Containment Proposals

To address the projected statewide budget shortfall, the May Revision proposes the following cost-containment proposals for Medi-Cal:

### Individuals with Unsatisfactory Immigration Status

- **Enrollment Freeze for Full-Scope Medi-Cal Expansion, Adults 19 and Older**: Implement a freeze on new enrollment to full-scope state-only coverage for otherwise eligible undocumented individuals, aged 19 and older, and who do not have satisfactory immigration status or are unable to establish satisfactory immigration, excluding Qualified Non-Citizens (also referred to as "Newly Qualified Immigrants") under the five year bar, individuals claiming Permanently Residing Under Color of Law (PRUCOL) and pregnant individuals. The policy is effective no sooner than January 1, 2026.

  *Estimated General Fund savings for this proposal: $86.5 million in 2025-26, increasing to $3.3 billion by 2028-29.*

- **Medi-Cal Premiums, Adults 19 and Older with Unsatisfactory Immigration Status:** Implement state-only $100 monthly premiums for individuals with unsatisfactory immigration status aged 19 and older, effective January 1, 2027. This policy would apply to Newly Qualified Immigrants and individuals claiming PRUCOL.

  *Estimated General Fund savings for this proposal: $1.1 billion in 2026-27, increasing to $2.1 billion by 2028-29.*

- **Elimination of Prospective Payment System Rates to Federally Qualified Health Centers and Rural Health Clinics for Individuals with Unsatisfactory Immigration Status**: Eliminate Prospective Payment System rates to clinics for state-only-funded services provided to individuals with unsatisfactory immigration status. Clinics would receive reimbursement at the applicable Medi-Cal Fee Schedule rate in the fee-for-service delivery system and at the applicable negotiated rate between a Medi-Cal managed care plan and the clinic in the managed care delivery system.

  *Estimated General Fund savings for this proposal: $452.5 million in 2025-26 and $1.1 billion in 2026-27 and ongoing.*

- **Elimination of Long-Term Care for Individuals with Unsatisfactory Immigration Status:** Eliminate state-only long-term care benefits for individuals with unsatisfactory immigration status, effective January 1, 2026.

*Estimated General Fund savings: $333 million in 2025-26 and $800 million in 2026-27 and ongoing.*

- **Elimination of Dental Benefits, Adults 19 and Older with Unsatisfactory Immigration Status:** Eliminate full-scope dental coverage for Medi-Cal members with unsatisfactory immigration status aged 19 and older, effective July 1, 2026. This population will continue to have access to restricted-scope emergency dental coverage.

  *Estimated General Fund savings: $308 million in 2026-27 and $336 million in 2028-29 and ongoing.*

- **Pharmacy Drug Rebates:** Implement a rebate aggregator to secure state rebates for individuals with unsatisfactory immigration status.

  *Estimated General Fund savings: $300 million in 2025-26 and $362 million ongoing. Additionally, the May Revision reflects additional General Fund savings of $75 million in 2025- 26 and $150 million ongoing associated with minimum rebate for human immunodeficiency virus (HIV)/acquired immunodeficiency syndrome (AIDS) and cancer drug rebates*

**Pharmacy Cost-Containment Proposals (Applies to All Medi-Cal Populations):**

- **Elimination of Over-the-Counter Drug Coverage:** Eliminate pharmacy coverage of certain drug classes including COVID-19 antigen tests, over-the counter vitamins, and certain antihistamines including dry eye products.

  *Estimated General Fund savings: $3 million in 2025-26 and $6 million in 2026-27 and ongoing.*

- **Eliminate Glucagon-Like Peptide-1 Coverage (GLP-1) for Weight Loss:** Eliminate coverage for GLP-1 drugs for weight loss effective January 1, 2026.

  *Estimated General Fund savings: $85 million in 2025-26, growing to $680 million by 2028-29 and ongoing.*

- **Prior Authorization for Continuation of Drug Therapy:** Eliminate the continuing care status for pharmacy benefits under Medi-Cal Rx. The policy, effective January 1, 2026, requires members to obtain drugs no longer on or removed from the Medi-Cal Rx contracted drug list (CDL) through the prior authorization process rather than allow continuing care based upon prior drug usage.

*Estimated General Fund savings: $62.5 million in 2025-26 and $125 million in 2026-27 and ongoing*

- **Prescription Drug Utilization Management:** Implement utilization management and prior authorization for prescription drugs.

  *Estimated General Fund savings: $25 million in 2025-26 and $50 million in 2026-27 and ongoing.*

- **Step Therapy Protocols:** Implement a step therapy strategy to promote utilization management and control prescription drug costs

  *Estimated General Fund savings: $87.5 million in 2025-26 and $175 million ongoing.*

**Eligibility & Benefits Cost-Containment Proposals**

- **Reinstatement of Medi-Cal Asset Test Limits:** Reinstate the Medi-Cal asset limit to consider resources, including property and other assets, when determining Medi-Cal eligibility for applicants or members whose eligibility is not based on modified adjusted gross income financial methods. The asset limit for a household is $2,000 for an individual and $3,000 per couple. The policy would be effective no sooner than January 1, 2026.

  *Estimated General Fund savings: $94 million in 2025-26, $540 million in 2026-27, and $791 million ongoing, inclusive of In-Home Supportive Services impacts.*

- **Elimination of Acupuncture Optional Medi-Cal Benefit:** Eliminate acupuncture as an optional benefit.

  *Estimated General Fund savings: $5.4 million in 2025-26 and $13.1 million ongoing.*

- **Utilization Management Efficiencies:** Implement prior authorization requirements for hospice services.

  *Estimated General Fund savings: $25 million in 2025-26 and $50 million ongoing.*

**Systemwide & Other Cost-Containment Proposals:**

- **Program of All-Inclusive Care of the Elderly (PACE) Organization Capitation Payments:** Limit the payments for PACE providers to the midpoint of actuarial rate ranges, except for newly enrolled providers receiving enhanced rates for the first two years.

*General Fund savings are $13 million in 2025-26 and $30 million ongoing.*

- **Medi-Cal Minimum Medical Loss Ratio:** Increase the minimum medical loss ratio for managed care plans, commencing January 1, 2026.

  *Estimated General Fund savings of $200 million in 2028-29 and ongoing.*

- **Skilled Nursing Facilities:** Eliminate the Workforce and Quality Incentive Program (WQIP) and suspend the requirement to maintain a backup power system for no fewer than 96 hours.

  *Estimated General Fund savings: $168.2 million in 2025-26 and $140 million ongoing.*

- **Medical Providers Interim Payment Fund Loan:** Use $2.2 billion of the cash loan authorized in 2024-25 and $1.2 billion in 2025-26 and begin repayment of the loan in 2027-28.

- **Behavioral Health Services Fund (BHSF) General Fund Offset:** Replace $40 million General Fund in 2024-25 and $45 million General Fund in 2025-26 for the Behavioral Health Bridge Housing Program and $55 million General Fund for Behavioral Health Transformation County Funding in 2025-26 with BHSF funds.

## DHCS May Revision Budget Change Proposals

The May Revision includes the following additional budget change proposals:

- **Ongoing Resources for CalHOPE Warm Line:** Includes $5 million from the Behavioral Health Services Fund (BHSF) to support the continuation of the CalHOPE Warm Line in 2025-26 and beyond.

- **Additional Support for Adverse Childhood Experiences (ACEs) Provider Trainings**: Includes $2.9 million total funds ($1.46 million BHSF and $1.46 million federal funds) in 2025-26 to support additional ACEs provider trainings.

- **Naloxone Distribution Project Augmentation:** Decreases the Opioid Settlement Fund by $4,196,000 one-time to reflect revised proposed resources for the Naloxone Distribution Project.

- **988 Suicide and Crisis Lifeline Allocation Increase**: Increases the 988 State Suicide and Behavioral Health Crisis Services Fund by $17.5 million one-time to provide additional support to 988 Suicide and Crisis Lifeline centers.

- **Behavioral Health Infrastructure Bond Act:** Provides $13,522,000 in 2025-26 through 2028-29 and $3,522,000 in 2029-30 and ongoing for the Behavioral Health Infrastructure Fund to support 22 positions and one-time contracting resources to continue implementation of the Behavioral Health Continuum Infrastructure Program expanded via the Proposition 1 Behavioral Health Bond Act and Assembly Bill 531 (Chapter 789, Statutes of 2023). The Department uses a combination of state staff and contractor resources to award and manage competitive grants to construct, acquire, and rehabilitate real estate assets to further expand behavioral health facilities.

- **Centers for Medicare and Medicaid Services (CMS) Interoperability**: Appropriates $194,000 in 2025-26 and $270,000 in 2026-27 and ongoing from the General Fund and allocates $909,000 in 2025-26 and $811,000 in 2026-27 and ongoing in federal funding for contracting resources and 8 positions to support the implementation of the federal CMS Interoperability and Patient Access final rule and the new CMS Advancing Interoperability and Improving Prior Authorization Processes final rule, released on January 17, 2024.

- **Federally Qualified Health Center (FQHC) Policy Guide**: Provides expenditure authority from a grant awarded by the California Health Care Foundation to help support the development of a Federally Qualified Health Center Reimbursement Policy Guide. The Department identified inconsistencies for FQHC reimbursement policy when

compared to broader policy documents. Requested authority will be used engage with stakeholders and develop a consolidated policy manual or similar resource that comprehensively documents the FQHC prospective payment system.

- **Human Resources Plus Modernization (HR+ Mod):** Allocates $1,831,000 in 2025-26 and $1,382,000 in 2026-27 and ongoing from the General Fund, and $1,829,000 in 2025-26 and $1,381,000 in 2026-27 and ongoing in federal funding to support contracting resources and 3 positions for the HR+ Modernization project, which will modernize human resources and related fiscal systems business technology. Currently, a mix of manually intensive processes and aging legacy systems are used to support the Department's workforce needs. The Department notes that processes and systems are ineffective, inefficient, and not compliant with current security requirements.

- **Medicaid Managed Care, Access, and Eligibility Final Rules:** Appropriates $3,908,000 one-time from the General Fund and $3,908,000 one-time in federal funding for 47 positions to support implementation of federal rules. CMS released several final rules to improve access to care, transparency, and quality. The federal rules include the Managed Care Access, Finance and Quality Final Rule (Managed Care), Ensuring Access to Medicaid Services (Access Rule), and Medicaid Eligibility Final Rule (Part 1 and Part 2).

- **Transforming Maternal Health (TMaH) Model**: Appropriates $1.1 million in 2025-26 and $1,782,000 and 2 positions in 2026-27 and ongoing in federal funding to support the implementation of a maternal health initiative. The Department was awarded funding to implement a ten-year Medicaid and Children's Health Insurance Program delivery and payment model designed to improve maternal health outcomes, reduce costs, and address serious gaps in health care. Resources will be used to implement the TMaH Model in five central valley counties including: Fresno, Kern, Kings, Madera, and Tulare.

- **Behavioral Health Transformation (BHT): Behavioral Health Services Act Continued Implementation**: Allocates $79 million in 2025-26, $54 million in 2026-27, and $9 million ongoing from the Behavioral Health Services Fund, and provides $52,045,000 in 2025-26, $26,109,000 in 2026-27, and $9,109,000 ongoing in federal funding to support 104 positions and the continued implementation of Proposition 1 and Behavioral Health Services Act requirements.

- **Long-Term Care Staffing & Payment Transparency Final Rule**: Provides $1,369,000 one-time federal funding and $1,247,000 one-time from the Long-Term Care Quality Assurance Fund to support contracting resources and 8 positions for the implementation of a federal rule. Specifically, the Minimum Staffing Standards for Long-Term Care Facilities establishes federal minimum hours per resident staffing requirements for LTC

facilities, establishes a hardship exemption process, and increases facility staffing assessment requirements.

**Other DHCS Budget Technical Changes:**

- **Medi-Cal Estimate:** Makes one-time adjustments to various budget line items to reflect caseload and other miscellaneous adjustments outlined in the Medi-Cal Estimate. Includes provisional budget bill language to increase the loan authority to the Health Care Deposit Fund to meet cash needs.

- **Family Health Estimate:** Makes one-time adjustments to various budget line items to reflect multiple updates outlined in the Family Health estimate.

- **Health Care Services Plan Fines and Penalties Fund Transfer:** Decreases General Fund investment by $24.9 million in 2025-26 and $3.5 million in 2026-26 and ongoing. Provides a corresponding $24.9 million in 2025-26 from the Health Care Services Plan Fines and Penalties Fund to reflect the offset of General Fund to support health care services in the Medi-Cal Program.

- **Adjust State Operations for the Breast Cancer Fund:** Decreases the Breast Cancer Control Account by $1,762,000 in 2025-26 and ongoing to align with updated revenue projections.

- **Behavioral Health Federal Funds Adjustment:** Allocates $72.9 million in federal funding for community mental health services and substance use disorder treatment and prevention services.

- **Behavioral Health Services Schoolsite Fee Schedule Administration Fund**: Provides $69.3 million in 2025-26 and ongoing to reflect the addition of the new Behavioral Health Services Schoolsite Fee Schedule Administration Fund outlined in the Medi-Cal Estimate.

- **Eliminate Mental Health Block Grant Reappropriation Item Related to Section 4, Chapter 75, Budget Act of 2021:** Eliminates a budget line item to reflect a technical adjustment because the language is already included in Section 18, Chapter 2, Statutes of 2025.

## DHCS May Revision Trailer Bills

DHCS is proposing the following trailer bill language:

- Policy Changes Related to Individuals with Unsatisfactory Immigration Status
- Eliminate Prospective Payment System Reimbursement for State-Only Services
- Eliminate Medi-Cal Optional Benefit: Acupuncture Services
- Reinstatement of the Medi-Cal Asset Limit
- Medi-Cal Managed Care Plans Medical Loss Ratio Increase
- HIV and Cancer Drug Rebates Prior Authorization for Continuation of Drug Therapy
- Skilled Nursing Facility Workforce and Quality Incentive Program
- Suspension of Skilled Nursing Facility Backup Power Requirement
- Federal Final Rules (includes Eligibility, Managed Care and Access Final Rules)
- Nondesignated Public Hospital Supplemental Fund and Intergovernmental
- Transfer Programs
- Streamline Legislative Reporting Requirements

At the time of this agenda's publication, not all trailer bills were made available to the Subcommittee for review.

## Panel

- Michelle Baass, Director, Department of Health Care Services
- Yingjia Huang, Deputy Director, Health Care Benefits and Eligibility, Department of Health Care Services
- Isabella Alioto, Department of Finance
- Megan Sabbah, Department of Finance
- Legislative Analyst's Office

## Issue 2: Proposition 35 Spending Plan

*This background was adapted from content provided by the Legislative Analyst's Office.*

### Background on the Managed Care Organization Tax

For over a decade, California, along with other states, has charged a specific tax on health insurance plans called the Managed Care Organization (MCO) tax. In recent years, this tax has been based on each plan's monthly enrollment in the Medi-Cal program and the commercial market.

The Legislature most recently renewed the MCO tax in the 2023-24 budget, extending it through the end of 2026. Broadly, California has used the MCO tax for two key uses:

- **Supporting Existing Medi-Cal Program (Offsetting General Fund Spending).** A portion of MCO tax revenue was to support existing service levels in the Medi-Cal program (the historic use of the MCO tax). This use would continue freeing up General Fund spending for other purposes.

- **Supporting Augmentations.** The remaining portion of MCO tax revenue was to support health program augmentations (a new use of MCO tax fund). Most were increases for Medi-Cal provider rates, such as rates for physician and hospital services. A few augmentations also supported certain health programs outside of Medi-Cal, such as workforce initiatives at the University of California and the Department of Health Care Access and Information.

### Use of the MCO Tax under the Budget Act of 2024

Although the MCO tax spending plan evolved overtime, the Budget Act of 2024 outlined uses of MCO revenues to both offset General Fund spending for the Medi-Cal program and provide rate increases to providers.

Notably, the budget included trailer bill language stating that if voters approve Proposition 35 in November 2024, the Medi-Cal provider rate increases and investments in the budget will become inoperable due to the General Fund's inability to sustain both the investments in the Budget and those outlined in the initiative.

### Proposition 35 Implementation:

In November 2024, California voters approved Proposition 35, which notably changes the spending plan for the state's MCO tax. Under Proposition 35, the MCO tax is now permanent

under state law. That is, the tax no longer requires approval from the Legislature to go into effect. However, the tax must still receive federal approval. This means that DHCS, which administers the MCO tax, must periodically submit new versions of the tax for federal approval. Proposition 35 allows DHCS to change the MCO tax structure to get federal approval, within certain limits.

Proposition 35 also creates new rules around how to spend the MCO tax revenue. Generally, these rules require more MCO tax funding to go for augmentations than in the most recent state spending plan. The rules differ in the short term (during the term of the existing tax) and in the long term (beginning in 2027, when the tax is renewed), described below:

- **Short Term (2025 and 2026).** In the first two years, the state must spend specified amounts of money on certain augmentations and to offset General Fund spending on Medi-Cal, totaling $4.7 billion. Some of the provider rate increases and investments are outlined below:

    - General Fund Offset: $2 billion
    - Primary Care (including obstetrics and nonspecialty mental health services): $691 million
    - Specialty Care: $575 million
    - Community and Outpatient Procedures: $245 million
    - Abortion and Family Planning Services: $90 million
    - Primary Care Services and Supports: $50 million
    - Emergency Room Facilities and Physicians: $355 million
    - Designated Public Hospitals: $150 million
    - Ground Emergency Medical Transportation: $50 million
    - Behavioral Health Facility Throughputs: $300 million
    - Graduate Medical Education: $75 million
    - Medi-Cal Workforce: $75 million

- **Long Term (2027 and Onward).** Beginning in 2027, the measure creates new rules, depending on how much net revenue the tax raises. For example, for the first $4.3 billion, the state must spend 92 percent of the funds on specified augmentations and 8 percent to offset General Fund spending in Medi-Cal. For funds above $4.3 billion, other rules apply.

### Stakeholder Advisory Group

While Proposition 35 is fairly prescriptive on which kinds of services and programs receive increases, it is much more open-ended on how these increases are to be structured. Accordingly, the measure requires DHCS to convene a new stakeholder committee to advise the department on implementing the augmentations. The committee is advisory only, with DHCS having final decision-making authority. The committee has ten members, representing providers, health

plans, and other related stakeholders. Proposition 35 tasks the Governor, the Speaker of the Assembly, and the Senate President pro Tempore with appointing member.

**May Revision Proposition 35 Proposal:**

The May Revision reflects MCO Tax revenue of $9 billion in 2024-25, $4.2 billion in 2025-26, and $2.8 billion in 2026-27 to support existing and increased costs in the Medi-Cal program. Compared to the Governor's Budget, this is an increase of $1.1 billion in 2024-25 and decreases of $200 million in 2025-26 and $400 million in 2026-27.

The May Revision reflects $804 million in 2024-25, $2.8 billion in 2025-26, and $2.4 billion in 2026-27 for the MCO Tax and Proposition 35 expenditure plan. This includes $1.6 billion across 2025-26 and 2026-27 to support increases in managed care base rates relative to calendar year 2024 for primary care, specialty care, ground emergency medical transportation, and hospital outpatient procedures.

On April 14, 2025, DHCS consulted with and solicited the written input of the PAHCA Stakeholder Advisory Committee (SAC) on the development and implementation of payment methodologies for CY 2025 and CY 2026. During that meeting, the PAHCA SAC requested that DHCS describe proposed uses of MCO Tax revenues.

The following section summarizes the proposed uses of MCO Tax revenues appropriated by the PAHCA in CY 2025 and CY 2026 and associated payment methodologies. DHCS continues to consult with and solicit written input from the PAHCA SAC on these proposals.

## Proposition 35 Allocation Overview

| Domain | $ Millions |
|---|---|
| Medi-Cal Program Support | $2,000 |
| Primary Care | $691 |
| Specialty Care | $575 |
| Emergency Department Facilities and Physicians | $355 |
| Community and Outpatient Procedures | $245 |
| Reproductive Health | $90 |
| Designated Public Hospitals | $150 |
| Services and Supports for Primary Care | $50 |
| Ground Emergency Medical Transportation | $50 |
| Behavioral Health Facility Throughputs | $300 |
| Graduate Medical Education | $75 |
| Medi-Cal Workforce | $75 |
| **TOTAL:** | **$4,656** |

Medi-Cal Program Support

- DHCS proposes to use $2 billion in CY 2025 and $2 billion in CY 2026 to support a portion of the nonfederal share of Medi-Cal managed care capitation rates for health care services furnished to children, adults, seniors and persons with disabilities, and persons dually eligible for the Medi-Cal and Medicare programs.

Primary Care Services

- DHCS proposes to use $215 million in CY 2025 and $226 million in CY 2026 to support the non-federal share of Targeted Rate Increases to 87.5 percent of the Medicare rate for primary care, maternal health, and non-specialty mental health services.

- DHCS proposes to use $476 million in CY 2025 and $117 million in CY 2026 to support the non-federal share of managed care capitation base rate increases relative to CY 2024 for primary care services including maternal health and nonspecialty mental health. Managed care capitation base rate increases in this service category represent projections of increased costs of purchasing health care services due to expanded health

care benefits, services, workforce, and/or payment rates, as reflected in increases in per-service costs, per-member utilization and acuity, and/or covered services.

- DHCS proposes to use $348 million in CY 2026 to support the non-federal share of limited-term uniform dollar increases for primary care services, including maternal health and non-specialty mental health, effective for dates of service no sooner than January 1, 2026, through December 31, 2026, in both the Fee-For-Service and Managed Care delivery systems. The uniform dollar increases will be designed to achieve aggregate payment levels relative to Medicare for specified services required by the BH-CONNECT Demonstration Special Terms & Conditions.

Specialty Care Services

- DHCS proposes to use $134 million in CY 2025 and $141 million in CY 2026 to support the non-federal share of Targeted Rate Increases to 87.5 percent of the Medicare rate and attributable to utilization by specialty physicians other than emergency physicians.

- DHCS proposes to use $353 million in CY 2025 and $63 million in CY 2026 to support the non-federal share of managed care capitation base rate increases relative to CY 2024 for specialty care services. Managed care capitation base rate increases in this service category represent projections of increased costs of purchasing health care services due to expanded health care benefits, services, workforce, and/or payment rates, as reflected in increases in per-service costs, per-member utilization and acuity, and/or covered services.

- DHCS proposes to use $371 million in CY 2026 to support the non-federal share of limited-term uniform dollar increases for specialty physician services effective for dates of service no sooner than January 1, 2026, through December 31, 2026, in both the Fee-For-Service and Managed Care delivery systems. The uniform dollar increases will be designed to achieve aggregate payment levels relative to Medicare for specified services required by the BH-CONNECT Demonstration Special Terms & Conditions.

Emergency Department Facilities and Physicians

- DHCS proposes to use $7 million in CY 2025 and $7 million in CY 2026 to support the non-federal share of Targeted Rate Increases to 87.5 percent of the Medicare rate attributable to utilization of applicable procedure codes by emergency physicians.

- DHCS proposes to use $93 million in CY 2025 and $93 million in CY 2026 to support the non-federal share of limited-term uniform dollar increases for emergency physician services effective for dates of service July 1, 2025, through December 31, 2026, in both the Fee-For-Service and Managed Care delivery systems. The uniform dollar increases

will be designed to achieve aggregate payment levels relative to Medicare for specified services required by the BHCONNECT Demonstration Special Terms & Conditions.

- DHCS proposes to use $255 million in CY 2025 and $255 million in CY 2026 to support the non-federal share of a portion of increases in existing special-funded hospital directed payments relative to CY 2024 for emergency facility services, thereby increasing participating hospitals' net benefit under these programs.

Community and Outpatient Procedures.

- DHCS proposes to use $245 million in CY 2025 and $245 million in CY 2026 to support the non-federal share of managed care capitation base rate increases relative to CY 2024 for hospital outpatient services. Managed care capitation base rate growth in this service category represents projections of increased costs of purchasing health care services due to expanded health care benefits, services, workforce, and/or payment rates, as reflected in increases in per-service costs, per-member utilization and acuity, and/or covered services.

Reproductive Health

- DHCS proposes to allocate $90 million in CY 2025 and $90 million in CY 2026 to the Department of Health Care Access & Information for investments addressing emergent needs in reproductive health including midwifery practitioner loan repayments and scholarships and expansion of education capacity for nurse midwives.

Designated Public Hospitals.

- DHCS proposes to use $150 million in CY 2025 and $150 million in CY 2026 to support the non-federal share of a portion of increases in existing special-funded hospital directed payments relative to CY 2024 for designated public hospital services, thereby increasing participating hospitals' net benefit under these programs.

Services and Supports for Primary Care

- DHCS proposes to use $50 million in CY 2025 and $50 million in CY 2026 to support the non-federal share of augmenting the Community Clinic Directed Payment Program.

Ground Emergency Medical Transportation

- DHCS proposes to use $27 million in CY 2025 and $27 million in CY 2026 to support the non-federal share of managed care capitation base rate increases relative to CY 2024 for GEMT services. Managed care capitation base rate increases in this service category

represent projections of increased costs of purchasing health care services due to expanded health care benefits, services, workforce, and/or payment rates, as reflected in increases in per-service costs, per-member utilization and acuity, and/or covered services.

- DHCS proposes to use $23 million in CY 2025 and $23 million in CY 2026 to support the non-federal share of a limited-term rate add-on for private provider GEMT services effective for dates of service July 1, 2025, through December 31, 2026. The rate add-on will be effective in the Fee-For-Service delivery system. Under existing state and federal law, MCPs must reimburse the Fee-For-Service rate, including rate add-ons, for non-contracted services.

Behavioral Health Facility Throughputs

- DHCS proposes to use $200 million in CY 2025 and $200 million in CY 2026 to improve data sharing, consent management, and care coordination among behavioral health providers.

- DHCS proposes to use $100 million in CY 2025 and $100 million in CY 2026 for flexible housing subsidy pools.

Graduate Medical Education

- DHCS proposes to allocate $75 million in CY 2025 and $75 million in CY 2026 to the University of California to expand graduate medical education programs.

Medi-Cal Workforce

- DHCS proposes to allocate $75 million in CY 2025 and $75 million in CY 2026 to the Department of Health Care Access & Information to support Medi-Cal workforce initiatives.

**Panel**

- Lindy Harrington, Assistant State Medicaid Director, Department of Health Care Services
- Nick Mills, Department of Finance
- Legislative Analyst's Office

## Issue 3: Proposition 56

*Segments of this background was adapted from content provided by the Legislative Analyst's Office*

### Background on Proposition 56

Enacted by voters in 2016, Proposition 56 increased state taxes on tobacco products and directed the majority of resulting revenues to support Medi-Cal on an ongoing basis. These funds were intended to improve provider payments to ensure timely access to care, reduce geographic disparities in service availability, and support overall quality of care. Medi-Cal began receiving Proposition 56 funding in 2017–18.

That year, the Legislature and then-Governor Brown reached a two-year agreement to allocate Proposition 56 revenues in Medi-Cal for two primary purposes: (1) increasing provider payments and (2) offsetting General Fund spending associated with underlying Medi-Cal cost growth. In 2018-19, the budget expanded the use of Proposition 56 funds to establish a physician and dentist student loan repayment program.

Since then, Proposition 56 revenues have continued to support these priorities. However, because tobacco use, and thus tobacco tax revenue, is projected to decline over time, the state has increasingly relied on General Fund support to backfill Proposition 56-funded programs and sustain provider payment increases, workforce initiative, and other Proposition 56 funded activities.

### Proposition 56 Budget Solutions

The Governor's budget includes the following budget reductions related to Proposition 56:

Proposition 56 Supplemental Payments: Eliminate approximately $504 million in 2025-26 and $550 million ongoing for Proposition 56 supplemental payments to dental, family planning, and women's health providers. Of note, Proposition 56 funding is matched with federal Medicaid funding to fully finance the payment increases, and this proposal would subsequently eliminate the availability of federal funds.

The impact of eliminating identified Proposition 56 Supplemental Payments is shown in the next table

| | 2025-26 Proposed Reductions | | |
|---|---|---|---|
| | General Fund | Federal Funds | Total Funds |
| Dental | ($331,830,000) | ($528,877,000) | ($860,707,000) |
| Family Planning | ($150,849,000) | ($281,971,000) | ($432,820,000) |
| Women's Health | ($21,213,000) | ($27,692,000) | ($48,905,000) |
| TOTAL | **($503,892,000)** | **($838,540,000)** | **($1,342,432,000)** |

*dollars in thousands

Suspension of the Proposition 56 Loan Repayment Program: The Administration also proposes to suspend a final cohort of the loan repayment program to create estimated General Fund savings of $26 million in 2025-26.

## Panel

- Michelle Baass, Director, Department of Health Care Services
- Xin Ma, Department of Finance
- Megan Sabbah, Department of Finance
- Legislative Analyst's Office

This agenda and other publications are available on the Assembly Budget Committee's website at: Sub 1 Hearing Agendas | California State Assembly. You may contact the Committee at (916) 319-2099. This agenda was prepared by Patrick Le.