

# LEGISLATIVE UPDATE



Week of February 26, 2024

## State Issues

State Budget Update

This week, the Assembly Budget Subcommittee held its first hearing of the year with its new chair, Dr. Akilah Weber (D-San Diego). The informational hearing focused on the Managed Care Organization (MCO) Tax. You can access the well-done document on the MCO [here](#). Primary testimony was provided by DHCS Director Michelle Baass and Jason Constantouros representing the LAO. Stakeholders representing CMA, CHA, community clinics and others provided some additional testimony.

The Committee did a nice job organizing the discussion into four parts:

To begin, DHCS is proposing to increase the MCO amount and draw down even more funding from the federal government. They are seeking an additional \$1.5 billion to support the Medi-Cal program by backfilling the State general fund. They need early action authorization by the Legislature by the end of March so it can be retroactive to the beginning of the year. When asked by the Committee, DHCS Director Baass said that there is no opportunity to increase this amount any further and that there are federal rules the state is bumping up against. If the Administration secures authorization, they can then ask for federal approval.

They also propose to shift an additional \$3 billion of the MCO funds to “general support for Medi-Cal.” This means they are seeking to take additional funds from the MCO tax into the State general fund to backfill state spending.

They are requesting about \$10 million over the next few years for DHCS staff positions to oversee the MCO.

The largest part of the proposal is a plan of targeted rate increases – continuing some that were begun last year and some that will be new in 2025. If you recall, in last year’s budget and beginning retroactively to January 1, 2023, the Administration brought certain service rates up to 87.5 percent of Medicare. This includes primary care, maternity care, and certain outpatient mental health services.

In this part of the proposal from last year, they also funded the Distressed Hospital Loan Program for a total of \$300 million, with \$150 million coming from the State general fund and \$150 million coming from the MCO Tax. Assembly Member Mia Bonta expressed concern that the hospitals are still struggling and that it is easier to keep a hospital open than try to re-open a hospital. She hopes to keep the conversation going, as there were hospitals that were not able to access these funds that need it. The Department of Finance added that state funds are tight, and there will be competing demands for scarce resources.

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<p>State Budget Update <i>(continued)</i></p>	<p>The new plan increases the targeted rate increases to include a host of health care spending including emergency department physician services and facility services, ground emergency transport, “behavioral health throughput” (which is not yet clearly defined), public hospital supports and graduate medical education.</p> <p>In the midst of this new (short term) funding adjustments, the Administration is also proposing several big changes to the funding methodology. For example, they are proposing to transition hospital outpatient and ambulatory surgical center reimbursement, and perhaps ED services, to an Outpatient Prospective Payment System (OPPS) methodology, no sooner than January 1, 2027. This would mean there is a single bundled payment amount for different types of outpatient and ED visits similar to a Diagnosis Related Group (DRG) methodology.</p> <p>There is also a proposal to finally provide for equity payment adjustors. This has been a topic of conversation for safety net providers for several years. DHCS proposes to allocate \$200 million for adjustments based on status as a health care worker shortage area; status as a rural, frontier or urban health deserts; concentration of Medi-Cal members as a percent of regional population; and to address social drivers of health. DHCS promises consultation with stakeholders on this part of the plan.</p> <p>This item was held open, but action on the plan should be taken in the next few weeks by the Legislature – so that federal approval can be sought. Stakeholder engagements on many of the details will continue even after federal approval is sought.</p>
<p>New Report on Behavioral Health Treatment Facility Options</p>	<p>The California Health Care Foundation recently released a report aimed at explaining the behavioral health residential options in California – or more specifically, the lack of sufficient treatment care beds. They state, “Once people are ready to be discharged from intensive treatment facilities, gaps in resources can prevent them from transitioning to less restrictive, community-based settings.”</p> <p>The short paper, <i><a href="#">Behavioral Health Treatment Beds and Housing in California: An Explainer</a></i>, maps out the continuum of treatment beds and housing options for both mental health and substance use treatment. It also makes the case for the Governor’s Proposition 1 proposal that is on the upcoming ballot, as well as describing other state initiatives and investments.</p>

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