AGN. NO.

REVISED MOTION BY SUPERVISOR LINDSEY P. HORVATH October 8, 2024
AND HILDA L. SOLIS

Support for Proposition 35: Permanent Funding for Medi-Cal Health Care Services

If approved by voters on November 5, 2024, Proposition 35 would make the existing Managed Care Organization (MCO) tax, which expires in 2026, permanent beginning in 2027 (federal approval also required). The MCO tax took effect in 2009 and has been renewed and changed over the years. Currently, it taxes health plans based on the number of people to whom they provide health coverage, including those in Medi-Cal. The tax would continue to be based on the number of people to whom health plans provide coverage. In 2024, the tax for each monthly Medi-Cal enrollee is $182.50, and $1.75 for each commercial enrollee. The current MCO tax is expected to generate $7 to $8 billion annually for the State through 2026, including federal matching funds. The State uses the MCO tax revenue to pay for existing costs in Medi-Cal, which allows for spending less money from the State General Fund on this program. The MCO would also increase funding for Medi-Cal and other health programs, such as increased payments to doctors and other health care providers.

Proposition 35 would require the proceeds of the MCO tax to cover a portion of the cost of the tax on Medi-Cal enrollment and administrative costs. In 2025 and 2026, the

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remaining proceeds would be allocated to the Medi-Cal program and health workforce initiatives (estimated $2.7 billion) and to the State General Fund (SGF) to offset Medi-Cal funding (estimated $2 billion). Beginning in 2027, the initiative would allocate the remaining proceeds to the Medi-Cal program, health workforce initiatives, and subsidies for drug prices.

The State Legislative Analyst (LAO) reports that in the short term (in 2025 and 2026), Proposition 35 would increase funding for Medi-Cal and other health programs between roughly $2 billion and $5 billion annually, including federal funds. Increased State costs are estimated between roughly $1 billion to $2 billion annually to implement funding increases. The LAO also reports that in the long term (2027 and after), Proposition 35 would make the temporary tax on health plans permanent and would create new rules about how to spend the money.

The Department of Health Services (DHS) reports that Proposition 35 would ensure that revenues are used exclusively for Medi-Cal services such as primary and specialty care, emergency care, family planning, mental health, and prescription drugs, without replacing existing funding. DHS also notes that this measure would secure dedicated funding, enhanced financial accountability, and stability in the provision of essential health services for the County's vulnerable populations. The MCO tax and resulting Medi-Cal provider rate increases and other forms of increased reimbursement for Medi-Cal providers would also ensure dedicated funding for Medi-Cal services provided at County facilities.

Proposition 35 is supported by: California Democratic Party; California Hospital Association; California Medical Association; California Republican Party; and SEIU California State Council. There is no formal opposition to the measure.

WE ~~**I**~~**, THEREFORE, MOVE** that the Board of Supervisors take an official position to support Proposition 35, which would provide a permanent funding source for Medi-Cal health care services.

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LPH:jrl