AUGUST 13, 2024

Proposition 35: Provides Permanent Funding for Medi-Cal Health Care Services. Initiative Statute.

PRESENTED TO:

Senate Committee on Health
Hon. Richard Roth, Chair

Assembly Committee on Health
Hon. Mia Bonta, Chair

LEGISLATIVE ANALYST'S OFFICE

LAO Role in the Initiative Process

Fiscal Analysis Prior to Signature Collection

- State law requires our office to work with the Department of Finance to prepare a joint impartial fiscal analysis of each initiative before it can be circulated for signatures. State law requires that this analysis provide an estimate of the measure's fiscal impact on the state and local governments.
- A summary of the estimated fiscal impact is included on petitions that are circulated for signatures.

Analyses for Qualified Measures

- State law requires our office to provide impartial analyses of all statewide ballot propositions for the statewide voter information guide. This analysis includes a description of the proposition and its fiscal effects.

Background

State Charges Specific Tax on Health Plans

- Since 2009, California typically has charged a specific tax on certain health plans, such as Kaiser Permanente. This tax is called the Managed Care Organization Provider Tax ("MCO tax").
- Currently, it charges plans based on the number of people to whom they provide health coverage, including those in Medi-Cal. The tax rate is higher for those in Medi-Cal compared to other kinds of health coverage.
- By charging the MCO tax, the state can receive more federal funding.

State Is Using Tax for Two Purposes

- Based on recent legislative action, we estimate the tax will provide around $7 billion to $8 billion annually to the state. This amount is being used for two purposes:
  - Some revenue helps pay for existing costs in the Medi-Cal program. Using the tax revenue in this way allows the state to spend less money from the General Fund on Medi-Cal. In other words, the MCO tax revenue reduces costs to the state General Fund.
  - Some of the revenue increases funding for Medi-Cal and other health programs. For example, the state is increasing Medi-Cal payments to doctors and other health care providers. This is a new use of health plan tax revenue. Some of these funding increases began in 2024, but most will begin in 2025 and 2026. Once they all begin in 2026, the increases likely would result in around $4 billion more for Medi-Cal annually. Around half of this amount will come from the MCO tax. (The rest will come from increased federal funding.)

Background

(Continued)

Tax Will End, Unless Approved Again

- The Legislature has not permanently approved this tax. Instead, it has approved it for a few years at a time. The federal government also must approve the tax.
- The tax was most recently approved in 2023. It will expire at the end of 2026, unless the Legislature and federal government approve it again.

Proposal

Makes MCO Tax Permanent

- Makes the existing MCO tax permanent beginning in 2027. The state would still need federal approval to charge the tax.
- The tax would continue to be based on the number of people to whom health plans provide health coverage. The proposition allows the state to change the tax, if needed, to get federal approval, within certain limits.

Creates Rules on How to Use Tax Revenue

- Generally, these rules require the state to use more of the revenue to increase funding for Medi-Cal and other health programs. The rules are different in the short term (in 2025 and 2026) and the long term (in 2027 and after).
- Changes which Medi-Cal services and other health programs get funding increases compared to current law. The figure shows these changes in the short term (that is, during the term of the existing tax).

Proposition 35 Changes Which Services Get Funding Increases

Funding Increases in the Short Term (in 2025 and 2026)

	Current Law	Proposition 35[a]
Doctors and other related providers[b]	✓	✓
Specified hospital services		✓
Outpatient facilities		✓
Safety net clinics	✓	✓
Behavioral health facilities		✓
Reproductive health and family planning	✓	✓
Emergency medical transportation	✓	✓
Nonemergency medical transportation	✓	
Private duty nursing	✓	
Certain long-term supports	✓	
Community health workers	✓	[c]
Continuous Medi-Cal coverage for children up to five-years old	✓	
Medi-Cal workforce programs	✓	✓
Doctor postgraduate training programs		✓

[a] More services are eligible for funding increases in the long term (beginning in 2027).
[b] Current law and Proposition 35 include some differences over which related providers get funding increases.
[c] Eligible for funding increases in the long term (beginning in 2027), depending on how much money is raised by the health plan tax.

Fiscal Effects

In Short Term (in 2025 and 2026), Three Key Fiscal Effects

- No effect on state tax revenue over this period of time.
- Increased funding for Medi-Cal and other health programs. This is because the state would have to use more MCO tax revenue for funding increases. The total increase in funding likely would be between roughly $2 billion and $5 billion annually. About half of this amount would come from the MCO tax.
- Increased state costs. This is because less MCO tax revenue would be available to pay for existing costs in Medi-Cal. Instead, the state likely would have to use more money from the General Fund for this purpose. The annual cost would be between roughly $1 billion to $2 billion in 2025 and 2026.

In Long Term (2027 and After), Unknown Fiscal Effects

- The fiscal effects beginning in 2027 are unknown and depend on many factors. For example, the state could approve the tax in the future, as it has done in the past, even if the proposition is not passed by voters. Also, it is uncertain how large of a tax the federal government would approve in the future.

Temporarily Increases State Spending Limit

- In line with rules in the California Constitution, Proposition 35 temporarily increases the limit by the size of the MCO tax for four years.
- After the temporary increase ends, the long-term effect of the proposition on the state's spending limit is uncertain. This is because it is unknown how Proposition 35 would affect state tax revenue in the future.