



# LEGISLATIVE REPORT #272

## Medi-Cal Special Session Begins With Informational Hearing

**July 6, 2015:** During the negotiations on the budget, the legislature had been pushing the Governor to increase reimbursement rates for providers treating Medi-Cal enrollees. The Governor said he would not increase reimbursement rates without a dedicated funding source which would not include funds from the General Fund. Additionally, the Governor was attempting to restructure the Managed Care Organization (MCO) tax due to new requirements from the federal government. Neither of these topics were resolved during the budget process so the Governor called for a special session to tackle these issues. Today, the Senate held its first informational hearing for the special session.

Brief background on the MCO tax: An MCO tax has been in place in California for more than 10 years. Under this tax, only health plans who include Medi-Cal managed care enrollees tax themselves to raise money which is then sent to the federal government. Under a federal Medicaid program the money is matched and then total amount is sent back to the state to be used in the state's Medicaid program.

Recently, the federal government said the tax would need to be applied to all health plans regardless if the health plan had Medi-Cal enrollees. This became problematic because for the health plans that don't have any Medi-Cal enrollees they would be taxed but would not receive any funds in return when matched at the federal level. As you could expect, those health plans without Medi-Cal enrollees strongly opposed the proposal.

Unable to find a deal, the Governor left this MCO tax out of the budget and used General Fund monies to cover the amount which would have been generated by the tax. The Governor then placed this issue at

the center of the special session and said if no deal could be reached he would cut the Medi-Cal program by \$1.7 billion, which is the amount the tax would have generated.

The Governor also said the special session could consider increasing rates for providers treating Medi-Cal enrollees by means of other funding sources.

Here is a link to the announcement of the special session.

[http://gov.ca.gov/docs/6.16.15\\_Health\\_Care\\_Special\\_Session.pdf](http://gov.ca.gov/docs/6.16.15_Health_Care_Special_Session.pdf)

Today's hearing was meant to brief Senators on the background of the MCO tax and explore other funding mechanisms. The proposed MCO tax by the Governor would generate approximately \$1.7 billion which would then be matched by the federal government to bring back roughly \$3.4 billion to California. The challenge with the new requirements I described earlier is it would result in losses to the health plans of more than \$675 million. This will be the biggest challenge in special session. The \$3.4 billion would be used to fund various programs within Medi-Cal but not include increasing provider reimbursement rates.

Other funding mechanisms to possibly be used for increasing provider reimbursement rates included increasing tobacco taxes, establish a sugar drink tax, or increase alcohol taxes. Senators asked many questions on the long term viability of those taxes.

There was no timeline given for next steps in the special session. Behind the scenes, it is felt the special session will not move forward in earnest until after the summer recess which ends on August 17th.