



LEGISLATIVE REPORT #280

Governor Releases 2016-2017 Budget - Big Surpluses to Increase Rainy Day Fund - New MCO Tax Proposal

January 7, 2016: This morning the Governor Brown released his proposed 2016-2017 budget. He highlighted a strong California economy but warned the seven year recovery coming to an end. His budget emphasizes planning for the next recession by increasing the rainy day fund from \$4.5 billion to \$8 billion. As a result of this emphasis there were not any major expansions of programs.

Governor Brown continues to take a pragmatic approach to the improved economy and pay down liabilities facing the state. In his budget he is proposing to pay down \$1.6 billion in debt. He also stated he would like to see some steps taken towards addressing the massive unfunded state retiree health benefits which are currently at \$71 billion.

Looking at the health portion of the budget, the focus was around the proposed Managed Care Organization (MCO) tax. As discussed in previous legislative reports, the MCO tax has been in place to tax the Medi-Cal Managed Care Organizations and then use those funds to obtain a federal match. The total funds raised are then put back into the Medi-Cal program. Last year, the federal government informed states the tax could not be only applied to the Medi-Cal Managed Care organizations rather it would need to be applied to all health plans in California regardless of whether they have Medi-Cal enrollees.

It was no surprise the health plans with no Medi-Cal enrollees strongly objected to paying this tax when the funds would then go back into the Medi-Cal program. Negotiations between the various stakeholders stalled during negotiations last year resulting in the Governor calling for a special session. The special session

did not solve the underlying issue that some health plans would lose money under the MCO tax structure so little progress was made.

Today, the Governor proposed an approach which would adjust the corporate tax rate for health plans along with structuring differential rates for health plans who have Medi-Cal enrollees and those who do not resulting in a net benefit to the health plan industry of \$90 million. The Governor did say this approach was not agreed to by the health plans but he was encouraged by the approach and was hopeful it would lead to an agreement.

The Governor said if a deal was not agreed to it would result in a \$1 billion hole in the Medi-Cal budget. Portions of the proposed MCO tax are earmarked for the restoration of the 7% reduction to In-Home Supportive Services (IHHS).

The MCO tax is also viewed to help offset the state portion of costs associated with expanding Medi-Cal. The ACA allowed states the option to expand their Medi-Cal population with the federal government paying for 100% of the costs for the first three years. During this time the Medi-Cal population has grown from 7.9 million to more than 13.5 million.

Calendar year 2017 will be the first year the state will share the costs on the expanded population under federal health care reform. The state will be responsible for 5% of the costs which for the first six months of 2017 will \$740 million. The state's portion will remain at 5% for three years and then move up to 10% thereafter.

The Legislature will now review the Governor's proposed budget and make their own changes. Speaking with a few Legislators, there is a desire to reinstate some of the cuts made during the previous recession in particular in the area of Medi-Cal provider reimbursement rates. It will be interesting to see how far the Legislature vary from the Governor's proposal. Years past have seen the legislature acquiesce to the Governor.