May 19, 2023

The Honorable Gavin Newsom
Governor, The State of California
1021 O St. Suite 9000
Sacramento, CA 95814

Re: SUPPORT of MCO Tax Proposal with Comments

Dear Governor Newsom:

We write to broadly support the proposal for an immediate and bigger renewal of the managed care organization (MCO) tax to bolster and improve our Medi-Cal program to provide direct benefit to the millions of Californians who rely on such coverage. Medi-Cal is a lifeline for over 15 million Californians, providing mostly no-cost access to care and financial security for more than a third of our state, and is a critical financial pillar of the health system we all rely on. Our organizations support the MCO tax as a way to draw down federal funds and to support the Medi-Cal program, both to continue the commitments made in terms of eligibility, benefits, and other planned and recent reforms, and to make further improvements, including in the access to needed care, in its quality and outcomes, and in promoting equity and reducing disparities.

We support the Administration's proposal, though we would suggest some key changes, including investing the money raised into the Medi-Cal program for the 3-4 years until the next extension, and putting in place further assurances to ensure dollars go to make meaningful improvements in the experience of Medi-Cal patients.

Overall, though, we support the MCO tax as a critical funding source to bolster and improve the Medi-Cal program and, by extension, California's health system as a whole.

We are in support of:

- **QUICK IMPLEMENTATION**: We support the Administration's proposal to move quickly to restart the MCO tax as soon as possible to limit the gap in funding from its expiration last year. Moving quickly can mean over $2 billion in funding for California and Medi-Cal.

- **BIGGER MCO TAX:** We support a bigger MCO tax that would bring in more federal dollars to California's health system, recognizing the program's growth and allowing us to meet multiple goals for the Medi-Cal program.

- **CONTINUED COMMITMENTS TO ELIGIBILITY, AFFORDABILITY, AND BENEFITS**: We support the MCO tax in the context that Medi-Cal will continue the commitments made, from the recent reforms in CalAIM, to restorations of benefits, and ongoing eligibility expansions and affordability assistance, including planned improvements like continuous coverage for young children and reforming share of cost. We strongly believe there should be no cuts or delays to any of these ongoing investments to make Medi-Cal more accessible, affordable, and universal for all low-income Californians—and certainly not if we have the resources of the MCO tax supporting the program and general fund.

- **MEANINGFUL MEDI-CAL IMPROVEMENTS**: We support the MCO tax in order to make new and additional improvements in the Medi-Cal program, ones that can provide proven, measurable, meaningful impact on the experience of Medi-Cal patients.

    - We support the Administration's proposal to improve fee-for-service base rate for primary, maternity and non-specialty behavioral health to be raised to 87.5% of Medicare levels, as proposed by the Administration. We hope this sends a signal to these providers about the value of their work with Medi-Cal patients and about a long-term investment that encourages more to sign up with the Medi-Cal program and plans. We appreciate that the Administration confirmed that this increase in the fee-for-service base rate will also be translated into the Medi-Cal managed care reimbursements on which 90% of the full-scope Medi-Cal enrollees rely, and support a requirement on Medi-Cal managed care plans to ensure that as a minimum for reimbursement.

Our suggested improvements:

- **SHORTER TIMEFRAME:** We have concerns about the Administration's proposal to expend the dollars over 8-10 years, rather than a shorter timeframe until the next extension, as has been done in the past. Investing the MCO tax over a shorter period of 3-5 years would allow California to make greater investments in the Medi-Cal program per year, with the understanding that their continuation is in part dependent on future federal extensions of the MCO tax. We support showing long-term support by planning for timely ongoing renewal of the tax, rather than spreading out the resources over a longer period of time, which diminishes the potential annual investment and introduces uncertainty that the funds would get swept in the future.

- **MORE FOR THE MEDI-CAL IMPROVEMENT FUND, AND TARGETED SUPPLEMENTAL PAYMENTS:** We support the concept of a fund of revenues raised from the MCO tax for Medi-Cal improvements, and for more dollars to go to that purpose. Even with more money, we urge that the limited resources be optimized to provide targeted investments in the program based on a data-driven process to have the biggest impact on access, quality, and equity.

  - This should include identification of known gaps in access to care, including to specialists, as well as providing supplemental payments targeted to address specific regions, specialties, and services.
  - We support most provider rate increases taking the form of supplemental payments that enable focused efforts with measurable results to improve quality and advance equity in alignment with DHCS' 50 by 2025 Bold Goals. For example, we supported previous efforts to focus supplemental payments for dental providers on preventive services and continuity of care, among other measures, which did result in improvements.
  - One example of needed investment from such a fund is to raise the rate for community health workers, and other examples proposed by CPEHN in its letter. The proposed DHCS rate is significantly lower than equivalent service codes for education and management by non-physicians in Medicare, and will make it hard to stand up this critical benefit.

- **LONG-TERM INVESTMENTS:** Alongside targeted and supplemental supports, we encourage long-term investments in Medi-Cal, to better impact provider buy-in and behavior, in the context of getting more information about what plans are paying providers now, and getting lagging provider rates closer to Medicare rates. Any additional investments should be tracked and measured to show improvements in timely access to necessary care for Medi-Cal patients, for potential reconfiguration after several years.

We are keenly interested in remaining engaged as the details are determined. While MCO taxes are understandably negotiated with the managed care organizations that are being taxed, as well as with providers, labor, and other stakeholders in the Medi-Cal program, California patients and Medi-Cal enrollees are the ultimate beneficiary and stakeholder. Health care consumer and patient organizations have been active supporters and policy contributors in past MCO tax discussions, given the importance of Medi-Cal and the ultimate goal of an MCO tax to improve the care, outcomes, and patient experience of the millions of Californians that rely on Medi-Cal. We look forward to being involved in ongoing negotiations, and to actively providing input on both the overall structure of the MCO tax and the specific investments in the program that are proposed, as well as providing support and suggestions for the proposal at the state and federal levels.

Thank you for your consideration. Please contact us with further questions.

Sincerely,

Anthony Wright

Executive Director
Health Access California

Linda Nguy

Senior Policy Advocate
Western Center On Law & Poverty

cc: Dr. Mark Ghaly, Secretary, California Health and Human Services Agency
Joe Stephenshaw, Director, California Department of Finance
Jacey Cooper, Director, California Department of Health Care Services
Senate President Pro Tem Toni Atkins
Assembly Speaker Anthony Rendon
Senator Nancy Skinner, Chair, Senate Budget Committee
Senator Caroline Menjivar, Chair, Senate Budget Subcommittee on Health
Assemblymember Phil Ting, Chair, Assembly Budget Committee
Assemblymember Joaquin Arambula, Chair, Assembly Budget Subcommittee on Health