

LEGISLATIVE UPDATE



Week of January 22, 2024

State Issues

Senate and Assembly Budget Hearings

This week, both the Senate and Assembly held their first budget hearings of the year. Both had similar presentations from Governor Newsom's Department of Finance and the Legislative Analyst Office, followed by questions and comments from Legislative members of the Committee. They allowed a public comment period as well, but it was generally abbreviated for time reasons. The LAO released a 4-slide presentation that they used to guide their testimony at the hearing, which you can access [here](#).

The big picture discussion on the budget continues to focus on the size of the projected deficit. The LAO has said it is \$58 billion, while the Department of Finance says it is around \$38 billion. They both agree the State will encounter a budget gap of at least \$30 billion for the next few years, but no recession is expected.

There were several legislative questions focusing on health care. Dr. Akilah Weber tried to get a better understanding of the Governor's budget proposal related to Proposition 56, which provides Tobacco Tax funding to physician services in the Medi-Cal program. The Governor's budget seeks to withdraw some state general funding that has been funded to backfill the rate increases and substitute it with funding from the MCO tax.

Assembly Member Bonta, new Chair of the Assembly Health Committee, covered many topics, but she commented that she hopes they can work on a budget that allows them to remain true to their commitment to health care workers and fund the SB 525 minimum wage increases for health care workers that was passed last year.

Senator Grove also dove into health care funding, specifically focusing on struggling hospitals and the lack of support for the hospital safety net in the Budget proposal.

Assembly Budget Chair Jesse Gabriel noted that more than 60 Subcommittee hearings covering the breadth of budget topics, including the subcommittees on health, will take place in the coming months.

Office of Health Care Affordability

This week, the Office of Health Care Affordability (OHCA) met and discussed setting a health care spending target for the state of 3%. You can access their memo [here](#).

The Board is basing their 3% cost target/cap on the median household income, and not the cost of providing quality health care. The Board staff rejected the suggestions of Dr. Pan, and other Board members, that the cost target should take into consideration the cost of health care innovations and technologies, saying it could not predict the value of, or uptake on, innovations like lifesaving medications or care innovations. Dr. Ghaly, chair of the Board and Secretary of the Health and

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<p>Office of Health Care Affordability <i>(continued)</i></p>	<p>Human Services Agency, noted that if the target ends up being too low, the Board can simply make adjustments in the out years.</p> <p>Advocates spoke out in opposition to the Board adopting the staff proposal at the hearing, and final decisions on the target/cap will be at a subsequent hearing. The target must be adopted before the June 1 statutory deadline, but could be at any of the Board meetings between now and then.</p>
<p>Managed Care Organization Tax Proposal</p>	<p>The Department of Health Care Services released the Governor’s proposal for the Managed Care Organization Tax (MCO). It includes not only their spending plan but proposes some changes to hospital funding methodologies for the out years. You can access their memo here.</p> <p>The proposal outlines an increase to certain physician services and notes the previously provided rate augmentations resulting from Proposition 56 (tobacco tax) are being folded into the base rate. The plan offers specific rate increases for prevention and basic care services, as well as abortion services and emergency transportation, along with new investments and changes to the payments for Public hospitals and community clinics.</p> <p>Of particular note, the Department provides no more details on the Behavioral Health Throughput category, which is expected to be provided to hospitals to manage the large number of patients that seek services in Emergency Departments, who cannot find the care they need in other settings. \$300 million is set aside for this allocation, and the date of implementation has been pushed back to July 2025 to give the Administration time to flesh out this proposal. Discussions between advocates and the Department will be forthcoming.</p> <p>Also, without a great deal of information, DHCS notices that it would like to target investments of \$75 million annually for the Medi-Cal Workforce Pool, to be established and administered by the Department of Health Care Access and Information (HCAI), but no other details are provided. DHCS proposes to transition hospital outpatient and ambulatory surgical center reimbursement, and perhaps emergency department services, to an Outpatient Prospective Payment System (OPPS), no sooner than January 1, 2027. The OPPS funding methodology has been used in Medicare and has since been adopted in 12 other states. The Department notes specifically that it will engage with stakeholders on this proposal. Under an OPPS methodology, a single bundled payment amount is established for different types of outpatient and ED visits, and the bundled payment amount may be adjusted for regional cost differences between facilities.</p> <p>Finally, a new element to the proposal is something called an equity payment. DHCS says it will work to develop an equity index using a composite of existing data sources, including status as a health care worker shortage area, status as a rural or frontier area or urban health desert, concentration of Medi-Cal members as a percent of regional population, and broader measures of social drivers of health, such as the Healthy Places Index. While they do propose applying this additional funding for hospital outpatient services, they specifically exclude emergency departments.</p> <p>This plan will be heard and debated in upcoming Budget Subcommittee hearings over the next few weeks, where more details will be explored, and advocacy efforts will begin.</p>

For more information, please contact Lori Dangberg at 1215 K Street, Suite 2000 ■ Sacramento, CA 95814
916.591.3991 or e-mail: ldangberg@thealliance.net