Established in 1991, UCC serves as the representative voice for state legislative advocacy for high-population counties in California. Initially composed of seven counties, the association has grown to 14 today. Just over 80 percent of the state's population reside in UCC counties. Consequently, urban counties carry out critical programs and services to the state's most vulnerable populations. For more information, including details on our Board of Directors, please visit our website.

January 26, 2024

Legislature Receives Overview of Governor' s 2024-25 Proposed Budget

On January 23, the full budget committees in each house received overview presentations from Department of Finance (Finance) and Legislative Analyst's Office (LAO) officials on the Governor's proposed 2024-25 spending plan. (See the LAO handout **here**.) As noted by newly appointed Assembly Budget Committee Chair Jesse Gabriel, just over 140 days remain until the June 15 constitutional deadline to approve a balanced state budget; likely more than 100 budget committee and subcommittee hearings between the two houses are expected to be held in the weeks and months ahead to deliberate on 2024-25 budget matters. Tuesday's hearings offered the first opportunity to hear legislators' questions and feedback on the Governor's January budget proposal.

Committee members in both houses engaged intently on several overarching issues regarding the architecture of the Governor's proposed budget – notably the differences between Finance's estimate of the size of the deficit as compared to the LAO's projection – as well as on very specific line items and decisions the Administration has proposed in trying to achieve solutions to considerable revenue shortfall.

There seemed to be broad acceptance regarding the reality of the state's budget situation—that while the precise scale of the revenue shortfall is unknown, addressing the budget problem will require tough choices in the near- and medium-term given the likelihood of continued deficits in the out years. Additionally, committee members as well as the Finance and LAO representatives

acknowledged that there remains considerable uncertainty about the state's fiscal future. Finance officials described the fiscal environment as a correction rather than a recession, citing relatively solid economic indicators and modest growth ahead. The LAO pointed out that other changes in the economy have had an outsized effect on investment activity in our state that drives California's growth as seen in notably flat business expansions, start-ups, and IPOs. On the bright side, the state's reserves on hand means that budget writers are much better positioned to address revenue shortfalls than they have been in previous periods of economic contraction. Finally, members also expressed wide support for enhanced oversight and accountability over programs and spending.

We will continue to keep you apprised as the budget subcommittees engage in the detailed review of the Governor's budget in the weeks ahead. Expect hearings to begin in later February or early March.

Managed Care Organization (MCO) Tax Update

Last weekend, the Department of Health Care Services (DHCS) released additional Managed Care Organization (MCO) tax documents, including a **term sheet**, **fiscal chart** and **policy memo**. State law requires DHCS submit to the Legislature, as part of the 2024-25 Governor's Budget, a plan for additional targeted increases to Medi-Cal payments or other investments using MCO Tax funds deposited in the Medi-Cal Provider Payment Reserve Fund (MPPRF).

DHCS' policy paper outlines the additional targeted increases or other investments being proposed by the Administration. It is very high level and notes several areas that require additional detail and work, including development of geographic and equity adjustments for some provider rates. Additionally, the policy paper lacks sufficient detail to understand how an individual provider might benefit from the proposed rate increases. The behavioral health component is being delayed until July 1, 2025, and no details are provided on that proposal.

The following **chart** details the Administration's proposed spending plan of MCO tax revenues for Medi-Cal payments.

The following is a high-level summary of a few of the Medi-Cal rate increases of note, as described in the policy paper found **here**.

Community and Hospital Outpatient and Emergency Department Facility Services

DHCS proposes to transition hospital outpatient and ambulatory surgical center reimbursement to an Outpatient Prospective Payment System (OPPS) methodology, no sooner than January 1, 2027, to advance the economic and efficient provisioning of these services. Additionally, DHCS proposes to explore

and engage stakeholders on transitioning ED facility reimbursement to an OPPS methodology. In preparation for the transition to an OPPS methodology, DHCS proposes transitionary increases to baseline reimbursements in the FFS and managed care delivery systems beginning on January 1, 2025, until the implementation of the OPPS. DHCS proposes to calibrate the OPPS to be budget neutral relative to increased baseline reimbursements in the preceding two years and to provide ongoing adjustments based on changes to Medicare rates. DHCS is proposing geographic and equity adjustments, as well.

Designated Public Hospitals
DHCS proposes to transition reimbursement for designated public hospital inpatient services from the existing Certified Public Expenditures methodology to a Diagnosis Related Group (DRG) type methodology. The document outlines the complicated steps for developing the methodology for the DRG. DHCS also proposes to sunset in two stages the current methodology that provides for per-diem reimbursement and a subsequent reconciliation to 100 percent of cost.

Services and Supports for Federally Qualified Health Centers (FQHCs) and Rural Health Clinics (RHCs)
DHCS intends to transition the supplemental payment program for non-hospital 340B community clinics (**AB 80, Statutes of 2020**) into a managed care directed payment arrangement, effective January 1, 2025. DHCS proposes to increase the total targeted annual pool amount by $100 million to $125 million ($50 million MPPRF, at 50 to 60 percent average federal financial participation).

Ground Emergency Medical Transportation
DHCS proposes to adopt Medicare's pricing system to vary Ground Emergency Medical Transportation (GEMT) base rates by complexity, locality, and rural status. DHCS proposes to eliminate the 10 percent AB 97 reduction and to increase the base rate to 50 to 60 percent of the Medicare base rate, effective January 1, 2025. In future years, DHCS proposes to maintain the Medi-Cal base rates in relation to the Medicare rates.

Additional Information
DHCS will propose Trailer Bill Language to authorize the reimbursement methodologies proposed in the policy paper. Additionally, DHCS will seek appropriation through the state budget process for staffing and contract resources, as applicable, that are necessary for DHCS to be able to implement and maintain the proposed targeted rate increases and investments.

Office of Health Care Affordability Discusses Health Care Spending Target

The Office of Health Care Affordability (OCHA) Board kicked off 2024 with a packed agenda for its January 24 meeting – topics included discussion of the statewide per capita health care spending target, presentations of examples of cost reducing strategies, an update on Total Health Care Expenditure (THCE) proposed regulations and data submission guide, and an introductory discussion of OHCA's plan for measuring hospital spending (**agenda** | **materials**).

The item that elicited the most board discussion – and public comment – was the statewide per capita health care spending target. OHCA is recommending a 3% target per year for 2025-29, based on the average annual rate of change in historical median household income over the 20-year period from 2002-2022.

Board member comments and questions revealed differences in opinion about the 3% target. The following is a sampling of the Board comments:

- A request for more information about the impact of wages/labor costs and the target.
- Concerns that there is no adjustment to the target for factors such as technology, Artificial Intelligence (AI), and pharmaceutical costs.
- Concern about using 20 years instead of 10 years or five years for the household median income methodology.
- Most of the other states that adopted spending targets are in the 3% range. Board members requested more information about where other states started their cost targets and what the average health care cost rate of growth was before spending targets were imposed.
- How do health care staffing shortages and labor costs factor into the target? Is staff factoring in demand and utilization associated with health care coverage expansions?
- Several Board members expressed support for the proposed 3% target.
- Did providers on the Advisory Committee have ideas about how to reduce costs?
- Questions about whether the 3% target achieves the goal of affordability.
- A recognition that the Board can make corrections if they miss the mark.
- Support was expressed for a target based on wages that is easy to explain.
- Additionally, there is interest in the OHCA Board reviewing the 3% more than annually and to look at geographic differences.
- Some noted concerns about OHCA's credibility if the target is too low and few covered entities achieve the target.

Public comment included a range of providers, including hospitals, physician groups, and Planned Parenthood, who expressed concerns with the 3% target. A number of labor organizations and health care advocates made comments in support of the target.

In related news, the UC Berkeley Labor Center released a **report** this week recommending that OHCA track consumer affordability metrics as part of their baseline data collection. They recommend using both administrative and survey data to track changes in the costs of coverage, cost of care, and consequences of unaffordable health care. They also advocated for data tracking on consumer affordability metrics in public comment at the OHCA Board meeting.

First Public Meeting of State's Racial Equity Commission

On Wednesday, January 24, the newly formed California Racial Equity Commission held its first ever public meeting. The Commission was established as part of Governor Newsom's Executive Order **N-16-22**, mandating state entities to embed and institutionalize racial equity strategies across their policies, programs, and initiatives. The first **agenda** was largely procedural with introductory remarks from key Legislators and members of the Administration and an overview of the overall goals of the Commission.

The key date at the center of the early work will be April 1, 2025—the due date for the Commission's Racial Equity Framework. According to the Executive Order, the Racial Equity Framework shall set forth:

- Methodologies and tools that can be employed in California to advance racial equity and address structural racism; and
- Budget methodologies, including equity assessment tools, that entities can use to analyze how budget allocations benefit or burden communities of color; and
- Processes for collecting and analyzing data effectively and safely, as appropriate and practicable, including disaggregation by race, ethnicity, sexual orientation and gender identity, disability, income, veteran status, or other key demographic variables and the use of proxies; and
- Summaries of input and feedback from stakeholder engagements.

In her Executive Director's Report, Director Estes discussed some of the early work of the Commission. The **website** for the Commission is now live and staff have been engaging racial equity leaders in other states, discussing how to embed equity in strategic plans, developing a workflow timeline for completing the framework by April 1, 2025, and conducting research on racial equity efforts in government. Director Estes is also planning to have future hybrid meetings

throughout the state in an attempt to go to places and spaces where people often do not feel included in state government. All meeting materials can be found **here**.