

**California Department of Health Care Services
Proposed Trailer Bill Legislation**

**Nondesignated Public Hospital Supplemental Fund and Intergovernmental
Transfer Programs**

FACT SHEET

Issue Title: Nondesignated Public Hospital Supplemental Fund and Intergovernmental Transfer Programs. The Department of Health Care Services (DHCS) proposes to: 1) replace the existing payment methodology to the nondesignated public hospitals (NDPH) Supplemental Fund (SF) program that expands the eligibility criteria to all eligible NDPHs; and 2) replace the DHCS' authority to retain 9 percent of each intergovernmental transfer (IGT) amount after state fiscal year (SFY) 2025-26 with a percentage of each IGT to cover administrative costs for operating the NDPH IGT program, as specified.

Background: An annual appropriation of \$1.9 million is transferred from the State General Fund (GF) to the NDPH Supplemental Fund (SF) Special Fund 3096 to be used as the non-federal share portion of NDPH SF program payments (Welfare and Institutions (W&I) Code section 14166.17). The \$1.9 million GF appropriation is matched with federal financial participation (FFP) to issue payments not to exceed \$3.8 million. The NDPH SF Special Fund 3096 has accumulated monies, referred to as carryover funds, eligible to be carried forward for a subsequent fiscal year due to the availability of enhanced FFP attributable to the Affordable Care Act since January 1, 2014, and enhanced FFP attributable to the Families First Coronavirus Response Act from January 1, 2020, to December 31, 2023.

The NDPH IGT program is a voluntary IGT program that provides supplemental reimbursement to eligible NDPHs on an annual basis. The program's annual expenditure amount is set by the NDPH Upper Payment Limit (UPL), which is calculated in accordance with a methodology outlined in [Supplement 2 of Attachment 4.19-A](#), pages 1-6a, of California's Medicaid State Plan, and includes a step to subtract projected Medi-Cal Fee-For-Service inpatient payments, including supplemental payments issued by the NDPH SF program, to determine the UPL room. In accordance with state law, the state shall retain 9 percent of each IGT amount to reimburse DHCS, or transfer to the GF, for the administrative costs of operating the NDPH IGT program and for the benefit of Medi-Cal children's health care programs (W&I Code section 14165.57(j)).

Justification for the Change: DHCS proposes to

- Add a payment methodology to the NDPH SF program that expands the eligibility criteria to all eligible NDPHs for the distribution methodology of approximately

\$14 million of carryover funds in SFY 2025-26, and subsequently sunset the NDPH SF program.

- Remove the state's authority under the NDPH IGT program to retain 9 percent of each IGT amount beginning in SFY 2026-27 and, instead, reflect administrative fee reimbursement in an amount projected to cover the state's administrative costs and ensure no State GF impact to operate the program.

This proposal would allow DHCS to disperse the NDPH SF program's carryover funds to all eligible NDPHs, rather than the two that are historically eligible, as well as sunset the NDPH SF program, resulting in an annual State GF savings of \$1.9 million beginning in SFY 2026-27. The 5-year average NDPH IGT program 9% administrative fee collections have been approximately \$1.4 million, which is less than the NDPH SF State GF appropriation of \$1.9 million. Therefore, these amendments would result in a net GF savings of approximately \$500,000. This savings amount is dependent upon the annual NDPH UPL room which may cause the net savings to fluctuate.

Specifically, the trailer bill language would:

- Replace the State's authority to retain 9 percent of each IGT amount after SFY 2025-26 with retention of a percentage of each IGT amount associated with interim supplemental payments equal to the projected administrative costs for operating the NDPH IGT program beginning in SFY 2026-27 (W&I Code section 14165.57(j)).
- Abolish the NDPH SF Special Fund 3096 effective December 31, 2028, and deposit any remaining moneys in the fund to the State GF (W&I Code section 14166.17(b)).
- Allow NDPH SF program carryover fund disbursement to all eligible NDPHs in SFY 2025-26 (W&I Code section 14166.17(j)).
- Sunset the NDPH SF program on June 30, 2026, and repeal the section on July 1, 2030. DHCS may conduct any necessary and remaining duties related to this section even after the section becomes inoperative (W&I Code section 14166.17(p)).

Summary of Arguments in Support:

- The proposed changes to the NDPH SF and NDPH IGT programs are expected to result in a net budget savings.
- Sunsetting the NDPH SF program would alleviate the impact that the NDPH SF program has on the NDPH UPL, which would benefit all NDPHs.
- The proposed changes to the NDPH SF and NDPH IGT programs allow all eligible NDPHs to benefit from the carryover fund distribution, instead of just the two historically eligible NDPHs under the current statute.