California Department of Health Care Services
Proposed Trailer Bill Legislation

Managed Care Organization Provider Tax

FACT SHEET

Issue Title: Managed Care Organization (MCO) Provider Tax. The Department of Health Care Services (DHCS) is proposing to implement a new MCO provider tax effective April 1, 2023, through December 31, 2026, that would provide a three and three-quarter-year source of funding for the Medi-Cal program.

Background: California has had various Medi-Cal managed care tax structures for over 10 years. Most recently, Assembly Bill (AB) 115 (Committee on Budget, Chapter 348, Statutes of 2019) re-established a managed care enrollment tax, using a three-tiered taxing model, effective for July 1, 2019, through December 31, 2022. In April 2020, the federal Centers for Medicare and Medicaid Services (CMS) approved a modified tax structure, for the effective period of January 1, 2020, through December 31, 2022. CMS determined the net impact of the tax is generally redistributive and the amount of the tax was not directly correlated to Medicaid payments.

Justification for the Change: The establishment of a new MCO provider tax provides an additional $19.4 billion in net non-federal funding over the three and three-quarter year period. These funds will continue to help maintain the Medi-Cal program, and support increased investments to maintain and expand access and quality of care in the Medi-Cal program, while minimizing the need for reductions in the program.

Specifically, the trailer bill language will:

- Provide legislative intent.
- Apply the tax to all full-service health plans licensed by the Department of Managed Health Care (DMHC) and/or plans contracted with DHCS to provide services to Medi-Cal beneficiaries.
- Assess the tax on a per-enrollee basis for all countable enrollees, defined as all individuals enrolled in a taxable health plan during a month of the base year, excluding the following:
    - Individuals enrolled in a plan for Medicare services.
    - Plan-to-plan enrollees (individuals enrolled in a plan who are enrolled through a subcontract from another plan).
    - Administrative services only enrollees.
    - Individuals enrolled in a plan pursuant to the Federal Employees Health Benefits Act of 1959.
- Assess the tax based on cumulative enrollment for the base year (January 1, 2022, through December 31, 2022), as modified by DHCS to account

for known or anticipated changes that will affect Medi-Cal enrollment on or after January 1, 2024.

- Authorizes DHCS to update the base year to the extent it deems necessary to meet the requirements of federal law or regulations, to obtain or maintain federal approval, or to ensure federal financial participation is available or is not otherwise jeopardized.
- Collect the tax on a quarterly basis determined by the following taxing tiers and amounts:

Calendar Years 2023 and 2024		
Taxing Tier (Range of Enrollee Months)	**Medi-Cal Tax Amount Per Enrollee Month**	**Other Tax Amount Per Enrollee Month**
0 – 1,250,000	$0.00	$0.00
1,250,000 – 4,000,000	$182.50	$1.75
4,000,001 +	$0.00	$0.00

Calendar Year 2025		
Taxing Tier (Range of Enrollee Months)	**Medi-Cal Tax Amount Per Enrollee Month**	**Other Tax Amount Per Enrollee Month**
0 – 1,250,000	$0.00	$0.00
1,250,000 – 4,000,000	$187.50	$2.00
4,000,001 +	$0.00	$0.00

Calendar Year 2026		
Taxing Tier (Range of Enrollee Months)	**Medi-Cal Tax Amount Per Enrollee Month**	**Other Tax Amount Per Enrollee Month**
0 – 1,250,000	$0.00	$0.00
1,250,000 – 4,000,000	$192.50	$2.25
4,000,001 +	$0.00	$0.00

- Cumulative enrollment will be based on quarterly financial statement filings or annual enrollment data submitted by health plans to DMHC and retrieved by DHCS no later than June 30, 2023.
- Requires DHCS to issue notice to taxable health plans of their tax amounts and due dates.
- Provides assumption requirements for the tax in the event of a merger, acquisition or establishment of a health plan.
- Establishes interest and penalties for overdue tax amounts, and provides the Director of DHCS the discretion to waive any interest or penalties and/or develop an alternative payment schedule as determined appropriate to prevent significant harm to the plan or impact on services.

- Establishes the Managed Care Enrollment Fund and directs that all revenues from the tax be deposited in the fund, and establishes the Medi-Cal Provider Payment Reserve Fund.
- Continuously appropriates moneys in the Managed Care Enrollment Fund to DHCS for purposes of:
    - Funding the non-federal share of increased capitation payments to Medi-Cal managed care plans accounting for their projected tax obligation.
    - Funding the nonfederal share of Medi-Cal managed care rates for health care services furnished to children, adults, seniors and persons with disabilities, and persons dually eligible for Medi-Cal and Medicare
    - Transfer to the Medi-Cal Provider Payment Reserve Fund.
- Continuously appropriates moneys in the Medi-Cal Provider Payment Reserve Fund for the purpose of funding targeted increases to Medi-Cal payments or other investments that advance access, quality, and equity for Medi-Cal beneficiaries and promote provider participation in the Medi-Cal program.

Based on the proposal and the latest enrollment data (assessed on 303.5 million enrollee months) for the 12-month base year ending December 31, 2022, retrieved in March 2023, and supplemented and modified, as specified, the tax results in $32.3 billion in total revenues, including $12.9 billion to fund reimbursement of the tax to Medi-Cal managed care plans, $8.3 billion in net General Fund offset, after accounting for the cost to fund rate increases for targeted providers and services to at least 87.5 percent of Medicare, and $10.3 billion in net revenue in the Medi-Cal Provider Payment Reserve Fund.

Note, the enrollment data used will be updated to reflect more recent counts of individuals enrolled in a plan pursuant to the Federal Employees Health Benefits Act of 1959, which is expected to affect the results slightly.

Summary of Arguments in Support:

- Maintains a critical funding source for the Medi-Cal program, and would be used to make critical investments to maintain and expand access and quality of care in the Medi-Cal program.
- Re-establishes an enrollment-based tax that is similar in structure to the latest tax model that was approved by CMS.