DHCS NEWS RELEASE

CALIFORNIA'S MANAGED CARE ORGANIZATION (MCO) TAX RECEIVES FEDERAL APPROVAL

SACRAMENTO — Governor Gavin Newsom and the State of California received federal approval from the Centers for Medicare & Medicaid Services (CMS) of its MCO tax federal waiver application.

"For the first time ever, we are using MCO tax revenue to augment Medi-Cal provider rates to drive greater Medi-Cal provider participation, especially in underserved areas and in primary and preventive care," said **Department of Health Care Services (DHCS) Director Michelle Baass**. "These dollars will drive access, quality, and equity in our program. This investment will have meaningful impact and demonstrates our commitment to Medi-Cal members."

WHY THIS IS IMPORTANT: This approval paves the way for DHCS to move forward with targeted provider rate increases and additional health care system investments that will advance access, quality, and equity in care and services for millions of Californians using Medi-Cal. These rate increases also promote provider participation in the state's Medi-Cal program, helping to shore up the health care workforce.

ABOUT THE RATE INCREASE: Effective January 1, 2024, rates for primary care (including nurse practitioners and physician assistants), maternity care (including OB/GYNs and doulas), and non-specialty mental health services will be increased to at least 87.5 percent of Medicare rates.

Effective January 1, 2025, there is a planned second phase of rate increases and investments that will focus on additional increases for primary care, maternity care, and non-specialty mental health services, including:

- Specialty care services.
- Community or hospital outpatient procedures and services.
- Family planning services and women's health providers.
- Hospital-based emergency and emergency physician services.
- Ground emergency transportation services.
- Designated public hospitals.
- Behavioral health care for members in hospital/emergency departments and institutional long-term care settings.
- Investments to maintain and grow the health care workforce.

Details of the 2025 rate increases will be included as part of the 2024-25 Governor's Budget.

HOW WE GOT HERE: Assembly Bill 119 (Chapter 13, Statutes of 2023) authorized a MCO tax, effective April 1, 2023, through December 31, 2026. The MCO tax is estimated to provide $19.4 billion in net non-federal funding over the 3.75-year tax period, subject to appropriation and federal approval of applicable payment and rate methodologies.

BACKGROUND: The MCO tax is a provider tax imposed by states on health care services. The burden of the tax falls mostly on providers, such as a tax on health plans per members served. There are federal rules that guide the methodology for imposing the tax, and DHCS must review several “tests” to ensure the structure meets all federal requirements.

Provider taxes have become an integral source of financing for Medicaid nationwide. The MCO tax is used as a mechanism to generate new state funds that can be used to match with federal funds to bring additional federal Medicaid dollars to California.

In accordance with state law, DHCS certified in writing within 10 business days that federal approval has been received and, separately, will issue notices to each MCO subject to the tax outlining the tax due for each tax period and the dates on which the installment tax payments are due. See CMS’ approval letter.

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