

January 19, 2024

Background

Managed Care Organization Tax

[Assembly Bill \(AB\) 119 \(Chapter 13, Statutes of 2023\)](#) authorized a Managed Care Organization (MCO) tax effective April 1, 2023, through December 31, 2026. MCO tax revenues will be used to support the Medi-Cal program including, but not limited to, new targeted provider rate increases and other investments that advance access, quality, and equity for Medi-Cal members and promote provider participation in the Medi-Cal program. The Department of Health Care Services (DHCS) received [federal approval](#) of the MCO tax on December 15, 2023.

Principles

- » Strengthen Medi-Cal's foundation by providing long-term certainty for provider rate increases to drive greater Medi-Cal provider participation, especially in underserved areas and in primary and preventive care.
- » Preserve eligibility and benefit expansions in the Medi-Cal program.
- » Create conditions to alleviate disparities and achieve equity within the Medi-Cal program.
- » Maximize opportunities to draw additional federal matching funds to support the Medi-Cal program.

Proposed Spending Plan

Spending Plan: Calendar Year 2024 through Fiscal Year 2027-28		
Annual Amount (starting in 2025)		\$2,656,000,000
Category ¹	Estimated Spend ²	% of Annual Spend
Primary Care and Specialty Care		62%
Primary Care, Maternal Care, and Mental Health ³ (started 1/1/24)	\$291,000,000	11%
Physician and Non-Physician Health Professional Services ⁴	\$975,000,000	37%
Community and Hospital Outpatient Procedures and Services	\$245,000,000	9%
Abortion and Family Planning Access	\$90,000,000	3%
Services and Supports for FQHCs and RHCs	\$50,000,000	2%
Emergency and Inpatient Care		21%
Emergency Department (Facility and Physician) Services	\$355,000,000	13%
Designated Public Hospitals	\$150,000,000	6%
Ground Emergency Medical Transportation	\$50,000,000	2%
Behavioral Health		11%
Behavioral Health Throughput (starts 7/1/25)	\$300,000,000	11%
Healthcare Workforce		6%
Graduate Medical Education (started 1/1/2024)	\$75,000,000	3%
Medi-Cal Workforce Pool – Labor-Management Committee	\$75,000,000	3%
Total	\$2,656,000,000	100%
Distressed Hospital Loan Program (one-time: FY 2023-24)	\$150,000,000	
Small and Rural Hospital Relief for Seismic Assessment and Construction (one-time: FY 2023-24)	\$50,000,000	

¹ Increases or investments proposed to start January 1, 2025, unless otherwise noted.
² Displayed amounts are State funds only; provider payments will include federal match when available. These amounts are annual amounts on an accrual basis. Medi-Cal is on a cash basis budget and amounts by fiscal year will vary.
³ Maternal Care includes obstetric and doula services. Mental Health means non-specialty mental health.
⁴ Physician and Non-Physician Health Professional Services include Primary Care, Maternal Care, Mental Health, and Specialty Care. Emergency department physician services are included under *Emergency Department (Facility and Physician) Services*.