

Proposition 35 Spending Plan – 2025 & 2026

May 14, 2025

The Protect Access to Health Care Act (PAHCA), enacted by Proposition 35 at the November 5, 2024 General Election, appropriates \$4.656 billion¹ of Managed Care Organization (MCO) Tax revenue to DHCS in each of Calendar Year (CY) 2025 and 2026 in specified domains. On April 14, 2025, as required by Proposition 35, DHCS consulted with and solicited the written input of the PAHCA Stakeholder Advisory Committee (SAC) on the development and implementation of payment methodologies for CY 2025 and CY 2026. During that meeting, the PAHCA SAC requested that DHCS describe proposed uses of MCO Tax revenues. This document summarizes the proposed uses of MCO Tax revenues appropriated by the PAHCA in CY 2025 and CY 2026 and associated payment methodologies. DHCS will further consult with and solicit written input from the PAHCA SAC on these proposals on May 19, 2025.

Table 1: CY 2025 & CY 2026 Allocation Overview

Domain	\$ Millions
Medi-Cal Program Support	\$2,000
Primary Care	\$691
Specialty Care	\$575
Emergency Department Facilities and Physicians	\$355
Community and Outpatient Procedures	\$245
Reproductive Health	\$90
Designated Public Hospitals	\$150
Services and Supports for Primary Care	\$50
Ground Emergency Medical Transportation	\$50
Behavioral Health Facility Throughputs	\$300
Graduate Medical Education	\$75
Medi-Cal Workforce	\$75
TOTAL:	\$4,656

¹ All dollar amounts in this document reflect MCO Tax revenues being used as the non-federal share of payments, and do not reflect any federal share of expenditures that may be available.

Medi-Cal Program Support

- DHCS proposes to use \$2 billion in CY 2025 and \$2 billion in CY 2026 to support a portion of the nonfederal share of Medi-Cal managed care capitation rates for health care services furnished to children, adults, seniors and persons with disabilities, and persons dually eligible for the Medi-Cal and Medicare programs.

Primary Care Services

- DHCS proposes to use \$215 million in CY 2025 and \$226 million in CY 2026 to support the non-federal share of Targeted Rate Increases to 87.5 percent of the Medicare rate for primary care, maternal health, and non-specialty mental health services.
- DHCS proposes to use \$476 million in CY 2025 and \$117 million in CY 2026 to support the non-federal share of managed care capitation base rate increases relative to CY 2024 for primary care services including maternal health and non-specialty mental health. Managed care capitation base rate increases in this service category represent projections of increased costs of purchasing health care services due to expanded health care benefits, services, workforce, and/or payment rates, as reflected in increases in per-service costs, per-member utilization and acuity, and/or covered services.
- DHCS proposes to use \$348 million in CY 2026 to support the non-federal share of limited-term uniform dollar increases for primary care services, including maternal health and non-specialty mental health, effective for dates of service no sooner than January 1, 2026, through December 31, 2026, in both the Fee-For-Service and Managed Care delivery systems. The uniform dollar increases will be designed to achieve aggregate payment levels relative to Medicare for specified services required by the BH-CONNECT Demonstration Special Terms & Conditions.

Specialty Care Services

- DHCS proposes to use \$134 million in CY 2025 and \$141 million in CY 2026 to support the non-federal share of Targeted Rate Increases to 87.5 percent of the Medicare rate and attributable to utilization by specialty physicians other than emergency physicians.
- DHCS proposes to use \$353 million in CY 2025 and \$63 million in CY 2026 to support the non-federal share of managed care capitation base rate increases relative to CY 2024 for specialty care services. Managed care capitation base rate

increases in this service category represent projections of increased costs of purchasing health care services due to expanded health care benefits, services, workforce, and/or payment rates, as reflected in increases in per-service costs, per-member utilization and acuity, and/or covered services.

- DHCS proposes to use \$371 million in CY 2026 to support the non-federal share of limited-term uniform dollar increases for specialty physician services effective for dates of service no sooner than January 1, 2026, through December 31, 2026, in both the Fee-For-Service and Managed Care delivery systems. The uniform dollar increases will be designed to achieve aggregate payment levels relative to Medicare for specified services required by the BH-CONNECT Demonstration Special Terms & Conditions.

Emergency Department Facilities and Physicians

- DHCS proposes to use \$7 million in CY 2025 and \$7 million in CY 2026 to support the non-federal share of Targeted Rate Increases to 87.5 percent of the Medicare rate attributable to utilization of applicable procedure codes by emergency physicians.
- DHCS proposes to use \$93 million in CY 2025 and \$93 million in CY 2026 to support the non-federal share of limited-term uniform dollar increases for emergency physician services effective for dates of service July 1, 2025, through December 31, 2026, in both the Fee-For-Service and Managed Care delivery systems. The uniform dollar increases will be designed to achieve aggregate payment levels relative to Medicare for specified services required by the BH-CONNECT Demonstration Special Terms & Conditions.
- DHCS proposes to use \$255 million in CY 2025 and \$255 million in CY 2026 to support the non-federal share of a portion of increases in existing special-funded hospital directed payments relative to CY 2024 for emergency facility services, thereby increasing participating hospitals' net benefit under these programs.

Community and Outpatient Procedures

- DHCS proposes to use \$245 million in CY 2025 and \$245 million in CY 2026 to support the non-federal share of managed care capitation base rate increases relative to CY 2024 for hospital outpatient services. Managed care capitation base rate growth in this service category represents projections of increased costs of purchasing health care services due to expanded health care benefits, services,

workforce, and/or payment rates, as reflected in increases in per-service costs, per-member utilization and acuity, and/or covered services.

Reproductive Health

- DHCS proposes to allocate \$90 million in CY 2025 and \$90 million in CY 2026 to the Department of Health Care Access & Information for investments addressing emergent needs in reproductive health including midwifery practitioner loan repayments and scholarships and expansion of education capacity for nurse midwives.

Designated Public Hospitals

- DHCS proposes to use \$150 million in CY 2025 and \$150 million in CY 2026 to support the non-federal share of a portion of increases in existing special-funded hospital directed payments relative to CY 2024 for designated public hospital services, thereby increasing participating hospitals' net benefit under these programs.

Services and Supports for Primary Care

- DHCS proposes to use \$50 million in CY 2025 and \$50 million in CY 2026 to support the non-federal share of augmenting the Community Clinic Directed Payment Program.

Ground Emergency Medical Transportation

- DHCS proposes to use \$27 million in CY 2025 and \$27 million in CY 2026 to support the non-federal share of managed care capitation base rate increases relative to CY 2024 for GEMT services. Managed care capitation base rate increases in this service category represent projections of increased costs of purchasing health care services due to expanded health care benefits, services, workforce, and/or payment rates, as reflected in increases in per-service costs, per-member utilization and acuity, and/or covered services.
- DHCS proposes to use \$23 million in CY 2025 and \$23 million in CY 2026 to support the non-federal share of a limited-term rate add-on for private provider GEMT services effective for dates of service July 1, 2025, through December 31, 2026. The rate add-on will be effective in the Fee-For-Service delivery system. Under existing state and federal law, MCPs must reimburse the Fee-For-Service rate, including rate add-ons, for non-contracted services.

Behavioral Health Facility Throughputs

- DHCS proposes to use \$200 million in CY 2025 and \$200 million in CY 2026 to improve data sharing, consent management, and care coordination among behavioral health providers.
- DHCS proposes to use \$100 million in CY 2025 and \$100 million in CY 2026 for flexible housing subsidy pools

Graduate Medical Education

- DHCS proposes to allocate \$75 million in CY 2025 and \$75 million in CY 2026 to the University of California to expand graduate medical education programs.

Medi-Cal Workforce

- DHCS proposes to allocate \$75 million in CY 2025 and \$75 million in CY 2026 to the Department of Health Care Access & Information to support Medi-Cal workforce initiatives.