



NORA VARGAS
CHAIRWOMAN
SUPERVISOR, FIRST DISTRICT
SAN DIEGO COUNTY BOARD OF SUPERVISORS
AGENDA ITEM

DATE: **October 22, 2024**

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TO: Board of Supervisors

SUBJECT

**ADOPT RESOLUTION IN SUPPORT OF PROPOSITION 35 AND WAIVE BOARD
POLICY A-72 (DISTRICTS: ALL)**

OVERVIEW

California's Proposition 35, set for a vote at the general election November 5, 2024, seeks to permanently establish a tax on Managed Care Organizations (MCOs), the health insurance companies that contract with Medi-Cal to provide healthcare services to low-income residents. The MCO tax, which has been periodically renewed since 2009, helps secure federal funds to offset the cost of the tax and supports the Medi-Cal program. If passed, Proposition 35 would place the California Department of Health Care Services (DHCS) in charge of administering the tax and overseeing how the revenue is allocated. The measure would not introduce new taxes but would extend the existing levy on MCOs set to expire in 2026.

The proposition is expected to generate \$7 to \$8 billion annually, helping fund Medi-Cal and other health initiatives. From 2025 to 2026, Proposition 35 would allocate an estimated \$2.7 billion to Medi-Cal and health workforce programs, while \$2 billion would help offset Medi-Cal funding in the State General Fund. Beginning in 2027, the tax would support Medi-Cal, health workforce initiatives, and subsidies for drug prices. The State Legislative Analyst estimates that the initiative would increase funding for Medi-Cal by \$2 to \$5 billion annually, though it would also increase state costs by \$1 to \$2 billion. Proposition 35 includes accountability measures, capping administrative expenses and ensuring nearly all funds go to patient care.

RECOMMENDATION(S)

CHAIRWOMAN NORA VARGAS

1. Waive Board Policy A-72 – Board of Supervisors' Agenda and Related Processes
2. Adopt Resolution in Support of Proposition 35

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EQUITY IMPACT STATEMENT

In the County of San Diego 932,585 individuals are Medi-Cal recipients in the County, of which 311,071 are children ages 0-18. Proposition 35 will improve access to care for low-income Californians, particularly those relying on Medi-Cal by addressing the shortage of doctors accepting Medi-Cal patients. This could enhance health outcomes for underserved communities, including racial minorities and vulnerable populations who are disproportionately enrolled in Medi-Cal.

SUSTAINABILITY IMPACT STATEMENT

This proposed action aligns with the County's sustainability goals of providing just and equitable access to County services with a focused investment in chronically underserved communities and protecting the health and wellbeing of everyone in the region with a focus on collaborating with community partners.

FISCAL IMPACT

There is no current fiscal impact associated with this action. There will be no change in net General Fund cost and no additional staff years.

BUSINESS IMPACT STATEMENT

N/A

ADVISORY BOARD STATEMENT

N/A

BACKGROUND

On November 5, 2024 voters will have the opportunity to support Proposition 35 which would add provisions to state law permanently establishing a tax on Managed Care Organizations (MCO), health insurance companies that contract with Medi-Cal to deliver health care services to low-income residents. MCO taxes, which draw down federal funds to subsidize a substantial amount of the tax and use the remainder paid by MCOs to subsidize Medi-Cal costs, have been periodically renewed and approved by the State Legislature to help fund Medi-Cal for nearly 20 years, though the tax has not been established permanently. In addition to permanently establishing the tax, the measure vests responsibility in administering the tax in the California Department of Health Care Services (DHCS) and specifies how DHCS can spend the resulting tax revenue.

The MCO tax, implemented in 2009, has undergone multiple renewals and modifications over the years. It currently taxes health plans based on the number of individuals they cover, including those enrolled in Medi-Cal. In 2024, the tax rate is set at \$182.50 per Medi-Cal enrollee per month and \$1.75 for each commercial enrollee. The tax is projected to generate \$7 to \$8 billion annually for the State, including federal matching funds, through 2026. The State uses this revenue to fund existing Medi-Cal costs, reducing the need for State General Fund spending on the program. Additionally, the MCO tax increases funding for Medi-Cal and other health programs, including higher payments to doctors and other health care providers. Proposition 35 does not involve any new taxes or tax increases for Californians, but rather it extends existing levy on health insurance companies that will otherwise expire in 2026.

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Proposition 35 mandates that a portion of MCO tax proceeds cover the cost of the tax on Medi-Cal enrollment and related administrative expenses. In 2025 and 2026, the remaining funds—estimated at \$2.7 billion—would go to the Medi-Cal program and health workforce initiatives, while about \$2 billion would offset Medi-Cal funding in the State General Fund (SGF). Starting in 2027, the initiative directs the remaining proceeds to Medi-Cal, health workforce initiatives, and drug price subsidies.

The State Legislative Analyst (LAO) reports that Proposition 35 would immediately boost funding for Medi-Cal and other health programs by an estimated \$2 billion to \$5 billion annually in 2025 and 2026, including federal funds. Implementing these funding increases would cost the State an estimated \$1 billion to \$2 billion per year. In the long term, starting in 2027, the LAO notes that Proposition 35 would make the temporary health plan tax permanent and establish new guidelines for how the funds must be allocated.

Proposition 35 has strong accountability requirements to ensure funds are spent on patient care. It caps administrative expenses at 1% and requires 99% of revenues to go to patient care. The measure also requires ongoing independent financial audits and public reporting to ensure funds are spent effectively and as intended. And it prevents the state from redirecting these funds. funds to a broad range of health care services that benefit all Californians, and especially the 15 million patients on Medi-Cal. Prop 35 protects and expands patient access to care at community health clinics, hospitals, emergency rooms, primary care, family planning, mental health, and specialty care providers.

LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN

Today's actions align with the County's 2024-2029 strategic plan and initiatives around health equity, including reducing disparities and disproportionality and ensure access for all through a fully optimized health and social service delivery system and upstream strategies and by focusing on policy, systems and environmental approaches that ensure equal opportunity for health and well-being through partnerships and innovation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Nora E. Vargas", written in a cursive style.

NORA VARGAS
Supervisor, First District

ATTACHMENT(S)

Attachment A: RESOLUTION IN SUPPORT OF PROPOSITION 35