California Hospital Association

January 28, 2026

Dear Director Baass:

On behalf of the California Hospital Association (CHA) and our member hospitals and health systems, thank you for the opportunity to provide comments on the Department of Health Care Services' proposed Managed Care Organization (MCO) tax spending plan for 2025 and 2026. More than 40% of California's hospitals were operating in the red. That number will undoubtedly rise as more hospitals face even greater financial distress. It is crucial that DHCS move quickly to provide these resources to California's hospitals serving Medi-Cal as intended by the voters. We appreciate the Administration's continued engagement with stakeholders during this period of significant federal uncertainty and offer the following comments for your consideration.

Graduate Medical Education Investments
CHA thanks the Administration for moving forward with $75 million in investments in Graduate Medical Education (GME). These resources are critical to sustaining California's physician pipeline and ensuring access to care for Medi-Cal patients across the state. Continued support for GME is essential to addressing long-standing workforce shortages and advancing Proposition 35's goal of strengthening the Medi-Cal delivery system.

Support for Public Hospitals and Emergency Departments in 2025
CHA also appreciates the Administration's commitment to maintaining investments for public hospitals and emergency department services in calendar year 2025. These investments are vital to preserving access to emergency care and supporting hospitals that serve as essential safety-net providers for Medi-Cal beneficiaries and uninsured patients.

Use of the Emergency Department Allocation in 2025
CHA urges the Administration to use the 2025 emergency department allocation intended for private hospitals to increase the aggregate pool size of the Private Hospital Directed Payment (PHDP) program above and beyond the level of nonfederal share proceeds allocated to 2025 PHDP payments under the revised Program 9 hospital fee model. This is particularly necessary for private hospitals in light of the provider tax changes in the federal One Big Beautiful Bill Act (OBBBA) already significantly constraining, if not outright eliminating, the hospital fee funding available to support payment growth in 2025 and the further OBBBA reductions to hospital directed

payments on the horizon . Acting now to strengthen PHDP and optimize the payment pool size for private hospitals will help stabilize emergency department operations and mitigate the federal funding disruptions over the coming years. Additionally, this recommended use would be entirely consistent with what DHCS previously presented for this domain in the May , 2025 PACHA-SAC meeting, and thus negating the need for any further stakeholder deliberation. Moreover, using the Emergency Department allocation to supplement the PHDP pool size is undoubtedly consistent with the department's legal obligations under Prop. 35, namely the requirement that MCO tax proceeds are used to increase payments to hospitals which can only be accomplished in managed care through use of an approved directed payment mechanism.

CHA notes that district hospitals would like the flexibility to use any allocation of the 2025 emergency department funding to offset Intergovernmental Transfers (IGTs) associated with the District Hospital Directed Payment (DHDP) program. Allowing this flexibility would help alleviate financial pressure on district hospitals while preserving access to emergency services.

Outpatient Allocation Concerns
CHA is concerned that the Administration's proposed approach to the outpatient allocation does not comply with the state's obligations under Proposition 35, nor does it reflect the intent of the voters. By redirecting resources to fund outpatient services that would otherwise be General Fund supported and without any mechanism to ensure plans actually use those increased proceeds to increase hospital payments, the administration has failed to support outpatient hospital services that are integral to patient access and continuity of care, and we urge DHCS to revisit this allocation to ensure compliance with both the letter and spirit of the law.

Behavioral Health Facility Throughput – Unallocated Funds
CHA recommends that the unallocated $100 million within the Behavioral Health Facility Throughput domain be directed toward improving rates for psychiatric services delivered in hospital settings. Hospitals are experiencing persistent financial strain in providing inpatient and emergency psychiatric care, and targeted rate improvements would meaningfully enhance access and capacity for these critically needed services. Psychiatric hospitals that provide nearly half of available psychiatric inpatient care in California now face historic and costly changes to their operations under new staff-to-patient ratios being imposed by the California Department of Public Health on June 1, 2026. Psychiatric hospitals are now incurring new, ongoing personnel and operations costs that are not

covered by current reimbursement rates. The importance of allocating Behavioral Health Facility Throughput resources to augment psychiatric inpatient rates has taken on a new level of urgency.

CY 2026 Allocation Methodology

CHA is concerned that the Administration's proposal to fund only certain Proposition 35 categories in 2026 while effectively zeroing out others is inconsistent with both Proposition 35 and voter intent. Rather than selectively funding individual domains for a full year while defunding others completely, CHA urges DHCS to revisit their 2026 MCO tax funding decisions in the likely event the MCO tax is only authorized through June 30, 2026. The OBBBA has fundamentally changed the landscape for hospitals in California, placing tremendous and disproportionate pressure on the field which will only compound as OBBBA is fully implemented and uncompensated care grows. Funding priorities should better reflect this new reality for California hospitals, in a manner consistent with the State's still operative legal obligations under Proposition 35.

CHA appreciates the Administration's consideration of these comments and looks forward to continued collaboration to ensure that Proposition 35 funds are used in a manner consistent with voter intent, statutory requirements, and the urgent needs of California's hospitals and patients.

Sincerely,

Adam Dorsey, Group Vice President, Financial Policy
California Hospital Association