April 25, 2025

Submitted via email to the Department of Health Care Services (DHCS)

SUBJECT: Proposition 35 — Hospital Payments Feedback

Hello DHCS Team,

Following the PAHC-SAC meeting last week, CHA is submitting some thoughts below on behalf of California's hospitals. Thank you for your partnership, and we look forward to our continued work on Proposition 35 implementation.

California hospitals play a vital role in delivering essential health care services to millions of Medi-Cal beneficiaries across the state, ensuring access to critical care for low-income children, families, seniors, and people with disabilities. The stability and strength of these hospitals are closely tied to state funding mechanisms. It is critical to expedite Proposition 35 payments to sustain hospital operations for underserved communities.

Emergency Department (ED) Facility Services and Hospital Outpatient Services in Calendar Years (CY) 2025 and 2026. These funds should be fully expended on hospital providers in a way that is timely, easy to implement, allows for ongoing flexibility, and can be targeted. The hospital field recommends the following approach:

2025

- Given we are well into the second quarter of 2025 and there has not been a public notice or submittal of a 2025 proposal, making federal approval increasingly less likely, the state should pursue a state-only grant program for 2025. This approach recognizes the need to get payments to hospitals in a timely manner and to avoid any further complication/risk in opening proposals already with CMS.
- This would not require any additional federal approval or revision to existing approvals or submissions, and could be implemented quickly for the first year only.
- Grant amounts could be based on a hospital's respective inpatient and outpatient Medi-Cal utilization, with a minimum grant amount for the smallest hospitals.

2026

- Reserve a portion of the total amounts for targeted increases to fee-for-service rates for select outpatient and ED codes identified in consultation with the hospital field.

- The remaining funds would be allocated to augment existing add-ons applicable to payments hospitals receive from Medi-Cal managed care plans under existing directed payment programs or, alternatively, remaining funds used for a new directed payment with add-on[s] applicable to all hospitals.
- DHCS can work with the hospital field between now and July 2025 to target those funds to particular types of services or classes of hospitals, in conjunction with the department's preferred timeline for finalizing policy decisions associated with CY 2026 public/private hospital directed payment programs.
- Using a uniform dollar add-on provides the most streamlined path for CMS approvals, provides the best avenue to maximize federal financial participation for the 2026 rating period given time constraints, and allows for ongoing flexibility to achieve various policy goals.
- A uniform dollar add-on approach does not create the same problems with using old data as compared to a uniform percent add-on in the midst of new payer contracts and revised contractual terms with existing payers.
- This approach can be built upon and/or modified for future policy priorities. It allows DHCS to fulfill its hospital funding obligations and maximize federal financial participation in 2026, while providing additional time for DHCS and the stakeholder committee to appropriately plan for and develop more comprehensive investments for 2027 and beyond.

2027 and Ongoing

- The hospital field urges DHCS to work with the various hospital partners to target Proposition 35 funds to further shared policy goals including:
    - Value
    - Financial stability
    - Simplicity
    - Timeliness
- Bifurcating these conversations between 2025/2026 and the ongoing funds allows for adequate time to properly vet proposals, plan for the shifting landscape of federal rules, and increase the likelihood of successfully meeting these goals upon implementation.

Behavioral Health Facility Throughput. The hospital field recommends the following allocation for behavioral health facility throughputs in 2025 and 2026:

- In light of the dedicated allocation in 2027 for inpatient psychiatric supplemental payments (will be $200 million annually in 2027+), provide across-the-board rate increases to hospitals for acute psychiatric services. The proposal could be modified in 2027 and beyond to target IMDs, utilization paid through the Medi-Cal fee-for-service and managed care systems, or high-acuity and comorbid patients. DHCS should work with hospitals to evaluate and mitigate the impacts of payment mechanisms to hospitals that set a maximum reimbursement level for hospitals furnishing acute psychiatric inpatient services at the facility's cost.

- Support EDs and attempt to reduce the volume of patient transfers to psychiatric inpatient hospitals. This will provide payments or grants to qualified EDs for currently unreimbursed costs associated with boarding psychiatric patients and to improve clinical decision-making about level of care needed by patients (patient sitters; costs for psychiatrists and licensed MH professionals to initiate medications, provide patient assessments, and make level of care determinations). Consideration could be given to factors such as whether certain public and/or private hospitals' emergency departments see disproportionate numbers of mental health patients (i.e., patients presenting to the ED on 5150 holds).

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