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April 25, 2025

Michelle Baass

Director, California Department of Health Care Services

Via email: [DHCSPAHCA@dhcs.ca.gov](mailto:DHCSPAHCA@dhcs.ca.gov)

**SUBJECT: Proposition 35 hospital investments**

Dear Director Baass,

On behalf of the University of California Health (UC) and as a member of the Protect Access to Health Care Act Stakeholder Advisory Committee, I am writing to provide input concerning the allocation of Proposition 35 funds to hospital providers.

UC Health's six academic health centers are an essential part of California's health care safety net system. As designated public hospitals, UC's academic health centers provide high quality care to those in need regardless of their insurance status or ability to pay, helping to create a more equitable and person-centered network of care for all Californians. UC Davis Health, UC Irvine Health, UCLA Health, UC San Diego Health, and UCSF Health own and operate hospitals. UC Riverside Health provides clinical care through community facilities, along with owned and operated clinics. Together, UC Health locations are the second largest provider of inpatient services to Medi-Cal enrollees, despite having only seven percent of all hospital beds in California.

This letter provides input for the allocation of Proposition 35 funds for hospital outpatient services, emergency department facility services, designated public hospitals (DPHs), and behavioral health facility throughput. The intent of the voters in enacting Proposition 35 was to guarantee that health care taxes be used to improve Medi-Cal members' access to care. In recognition of the strong positive correlation between provider rates and access, the measure furthers this goal by dedicating funds raised by the managed care organization tax for provider rate enhancements and certain workforce initiatives, including graduate medical education

investments overseen by the UC. In order to implement the measure in furtherance of these goals, the Department of Health Care Services (DHCS) should fully expend Proposition 35 funds on hospital providers in a way that is timely, easy to implement, allows for ongoing flexibility, and can be targeted.

#### Hospital Outpatient Services and Emergency Department Facility Services

Concerning funding for hospital outpatient services and emergency department facility services, given the limited time in which to develop payment approaches for 2025 and 2026, DHCS should employ the approach suggested below for the 2025 and 2026 calendar year funding, which would allow time to adequately vet proposals and plan for the shifting landscape of federal rules for funding provided in 2027 and beyond.

- For calendar year 2025 funding, the state should pursue a state-only grant program, which would initiate payments to hospitals in a timely manner and not require additional federal approval. 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.
- For calendar year 2026 funding, DHCS should reserve a portion of the total amounts for targeted increases to fee-for-service (FFS) rates for select outpatient and emergency department codes and use remaining funds for directed payment programs. This approach would allow DHCS to fully fund hospitals, maximize federal financial participation, and would allow for ongoing flexibility to achieve various policy goals. DHCS can work with the hospital field in the coming few months to develop the details of this proposal.

#### Designated Public Hospitals (DPHs)

For funding allocated to DPHs beginning in 2025, DHCS should use a similar grant approach as that suggested above for hospital outpatient services and emergency department facility services. Specifically, funding for DPHs should be used toward inpatient services provided for and paid for by the Medi-Cal FFS program. Given that DPHs do not receive state General Fund support for supplemental payments, a grant approach would help to reduce the non-federal share burden that has historically been placed on DPHs.

#### Behavioral Health Facility Throughput

Regarding the behavioral health facility throughput funding for calendar years 2025 and 2026, DHCS should provide a combination of across-the-board per diem rate increases for inpatient psychiatric services and either payments or grants to help emergency departments provide care to individuals with behavioral health needs, including care that is currently unreimbursed.

I understand that organizations representing hospitals will be submitting similar input concerning the allocation of these funds, and I urge DHCS to expend Proposition 35 funds in alignment with our collective suggested approach. Thank you for considering our input and request.

Sincerely,

A handwritten signature in blue ink that reads "Tam Ma". The signature is fluid and cursive, with a long horizontal stroke at the end.

Tam Ma  
Associate Vice President  
Health Policy and Regulatory Affairs