PROPOSITION 35

PROVIDES PERMANENT FUNDING FOR MEDI-CAL HEALTH CARE SERVICES. INITIATIVE STATUTE.

OFFICIAL TITLE AND SUMMARY

PREPARED BY THE ATTORNEY GENERAL

The text of this measure can be found on page 109 and the Secretary of State's website at *voterguide.sos.ca.gov.*

- Makes permanent the existing tax on managed health care insurance plans (currently set to expire in 2026), which, if approved by the federal government, provides revenues to pay for health care services for low-income families with children, seniors, disabled persons, and other Medi-Cal recipients.
- Requires revenues to be used only for specified Medi-Cal services, including primary and specialty care, emergency care, family planning, mental health, and prescription drugs.
- Prohibits revenues from being used to replace existing Medi-Cal funding.
- Caps administrative expenses and requires independent audits of programs receiving funding.

SUMMARY OF LEGISLATIVE ANALYST'S ESTIMATE OF NET STATE AND LOCAL GOVERNMENT FISCAL IMPACT:

- In the short term, increased funding for Medi-Cal and other health programs between roughly $2 billion and $5 billion annually (including federal funds). Increased state costs between roughly $1 billion to $2 billion annually to implement funding increases.
- In the long term, unknown effect on state tax revenue, health program funding, and state costs. Fiscal effects depend on many factors, such as whether the Legislature would continue to approve the tax on health plans in the future if Proposition 35 is not passed by voters.

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ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

State Charges a Specific Tax on Health Plans. Since 2009, California typically has charged a specific tax on certain health plans, such as Kaiser Permanente. This tax is called the Managed Care Organization Provider Tax ("health plan tax"). The tax has worked differently over time. Currently, it charges plans based on the number of people to whom they provide health coverage, including those in Medi-Cal. The tax rate is higher for those in Medi-Cal compared to other kinds of health coverage. (Medi-Cal is a federal-state program that provides health coverage for low-income people. The federal government and the state share the cost of the program. By charging the health plan tax, the state can receive more federal funding.)

State Uses Tax for Two Purposes. The amount of revenue raised by the health plan tax has changed over time. Based on recent legislative action, we estimate the tax is expected to result in between $7 billion to $8 billion each year (annually) to the state. The state uses this money for two purposes.

- ***Paying for Existing Costs in Medi-Cal.*** Some revenue helps pay for existing costs in the Medi-Cal program. Using the tax revenue in this way allows the state to spend less money from the General Fund on Medi-Cal. (The General Fund is the account the state uses to pay for most public services, including education, health care, and prisons. Medi-Cal is expected to get around $35 billion from the General Fund this year.) In other words, the health plan tax revenue reduces costs to the state General Fund.
- ***Increasing Funding for Medi-Cal and Other Health Programs.*** Some of the revenue increases funding for Medi-Cal and other health programs. For example, the state is increasing Medi-Cal payments to doctors and other health care providers. This is a new use of health plan tax revenue. Some of these funding increases began in 2024, but most will begin in 2025 and 2026. Once they all begin in 2026, the increases likely would result in around $4 billion more for Medi-Cal annually. Around half of this amount will come from the health plan tax. (The rest will come from increased federal funding.)

Tax Will End, Unless It Is Approved Again. The Legislature has not permanently approved this tax. Instead, it has approved it for a few years at a time. The federal government also must approve the tax. The tax was most recently approved in 2023. It will expire at the end of 2026, unless the Legislature and federal government approve it again.

PROPOSAL

Makes Existing Health Plan Tax Permanent. Proposition 35 makes the existing health plan tax permanent beginning in 2027. The state would still need federal approval to charge the tax. The tax would continue to be based on the number of people to whom health plans provide health coverage. The proposition allows the state to change the tax, if needed, to get federal approval, within certain limits.

Creates Rules on How State Uses Tax Revenue. In addition to making the health plan tax permanent, Proposition 35 creates rules on how to use the revenue. Generally, these rules require the state to use more of the revenue to increase funding for Medi-Cal and other health programs. The rules are different in the short term (in 2025 and 2026) and the long term (in 2027 and after). Proposition 35 also changes which Medi-Cal services and other health programs get funding increases compared to current law.

For the full text of Proposition 35, see page 109.

Figure 1

Proposition 35 Changes Which Services Get Funding Increases

Funding Increases in the Short Term (in 2025 and 2026)

	Current Law	Proposition 35[a]
Doctors and other related providers[b]	✓	✓
Specified hospital services		✓
Outpatient facilities		✓
Safety net clinics	✓	✓
Behavioral health facilities		✓
Reproductive health and family planning	✓	✓
Emergency medical transportation	✓	✓
Nonemergency medical transportation	✓	
Private duty nursing	✓	
Certain long-term supports	✓	
Community health workers	✓	c
Continuous Medi-Cal coverage for children up to five-years old	✓	
Medi-Cal workforce programs	✓	✓
Doctor postgraduate training programs		✓

[a] More services are eligible for funding increases in the long term (beginning in 2027).
[b] Current law and Proposition 35 include some differences over which related providers get funding increases.
[c] Eligible for funding increases in the long term (beginning in 2027), depending on how much money is raised by the health plan tax.

Figure 1 shows these changes in the short term.

FISCAL EFFECT

In Short Term, Three Key Fiscal Effects. In the short term (in 2025 and 2026), Proposition 35 would have the following key fiscal effects:

- ***No Change to State Tax Revenue.*** Proposition 35 does not change the existing temporary tax on health plans, which expires at the end of 2026. For this reason, the proposition would have no effect on state tax revenue over this period of time.
- ***Increased Funding for Health Programs.*** Proposition 35 would increase funding for Medi-Cal and other health programs. This is because the proposition requires the state to use more health plan

tax revenue for funding increases. The total increase in funding likely would be between roughly $2 billion and $5 billion annually. About half of this amount would come from the tax on health plans. (Because the federal government shares the cost of Medi-Cal with the state, the rest of the funding increase would come from federal funds. Including all fund sources, Medi-Cal is expected to get over $150 billion this year.)

- ***Increased State Costs.*** Proposition 35 would increase state costs. This is because it reduces the amount of health plan tax revenue that can be used to help pay for existing costs in Medi-Cal. Instead, the state likely would have to use more money from the General Fund for this purpose. **The annual cost would be between roughly $1 billion to $2 billion in 2025 and 2026.** These amounts are between one-half of 1 percent and 1 percent of the state's total General Fund budget.

In Long Term, Unknown Fiscal Effects. In the long term (2027 and after), Proposition 35 makes the temporary tax on health plans permanent and creates new rules about how to spend the money. The fiscal effect of these changes depends on many factors. For example, the state could approve the tax in the future, as it has done in the past, even if the proposition is not passed by voters. Also, it is uncertain how large of a tax the federal government would approve in the future. Given these uncertain factors, the proposition's long-term effects on tax revenue, health program funding, and state costs are unknown.

Temporarily Increases State Spending Limit. The California Constitution has various rules that impact the state budget. One rule limits how much state tax revenue can be spent on any purpose annually. Voters may increase this limit for up to four years at a time. In line with these rules, Proposition 35 temporarily increases the limit by the size of the health plan tax for four years. After the temporary increase ends, the long-term effect of the proposition on the state's spending limit is uncertain. This is because it is unknown how Proposition 35 would affect state tax revenue in the future.

Visit *sos.ca.gov/campaign-lobbying/cal-access-resources/measure-contributions/2024-ballot-measure-contribution-totals* for a list of committees primarily formed to support or oppose this measure.

Visit *fppc.ca.gov/transparency/top-contributors.html* to access the committee's top 10 contributors.

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