



February 17, 2022

The Honorable Susan Talamantes Eggman
Chair, Senate Budget Subcommittee No. 3 on Health and Human Services
1020 N Street, Room 502
Sacramento, CA 95814

RE: Public Hospital Financing Reform – SUPPORT

Dear Senator Eggman,

On behalf of the members of the California Association of Public Hospitals and Health Systems (CAPH) and the millions of patients our members serve, I am writing to voice our strong support for the Governor's budget public hospital financing reform language, which provides an important opportunity for public health care systems to work with the Administration to strengthen Medi-Cal payments and help ensure our ability to maintain critical access to care for millions of Californians.

California's 21 public health care systems (PHS) are the core of the state's health care safety net, delivering high-quality care to more than 3.7 million patients annually, regardless of ability to pay or insurance status. Public health care systems include both county-operated or—affiliated facilities, as well as the University of California medical centers. Statewide, PHS employ 85,000 workers, provide nearly 40 percent of all hospital care to the state's uninsured, and 35 percent of all hospital care to the Medi-Cal population in our communities. Public health care systems also operate over half of the state's top-level trauma and burn centers and train half of all physicians in the state.

Over the past 10 years, PHS have increasingly shifted away from volume-based care, transforming their funding to be contingent on improving quality and outcomes for Medi-Cal and uninsured patients. Public health care systems in California are unique in that approximately \$1.8 billion of federal funding are tied to meeting year-over-year improvement targets for health care quality and outcome performance measures covering categories such as primary care access and prevention, care coordination, behavioral health care, care of acute and chronic conditions and improving health equity. Our systems' performance and value-based structures have resulted in significant improvements in care delivery and, consequently, the health and well-being for the millions of patients we serve each year.

Despite their efforts to improve quality, outcomes, and efficiencies, public health care systems are facing a growing structural deficit. This looming budget crisis is largely due to two factors:

1. Public health care systems serve a large Medi-Cal and uninsured patient population, and the base payments we rely on do not cover our costs. To make up this difference, our systems have relied on Medi-Cal supplemental payments, Medicaid 1115 waiver payments, and other funding to cover the cost of care. Yet, we have now largely maximized these supplemental payments. It is also anticipated that the recently approved five-year 1115 Medicaid waiver will not provide additional funds beyond covering our costs to support public health care systems, which have been critical in years past in addressing the structural deficit.

2. Many of the Medi-Cal and uninsured revenues require PHS to provide the non-federal share to draw down federal funding. For example, in fiscal year 2019-20, more than 68 percent of payments our systems received for Medi-Cal and uninsured care were self-financed. This self-financing structure results in PHS receiving only partial payment for services. Rather than collecting both the state and federal portion of reimbursement for providing services, public health care systems only receive the federal portion. The consequence of self-financing the non-federal share for Medi-Cal and uninsured payments is a growing structural deficit that is becoming increasingly unsustainable.

As a result of these two factors, public health care systems are facing a crisis. By 2026, and assuming the current trajectory of payments and cost growth, public health care systems predict an increased budget deficit of more than \$2B. Without changes to Medi-Cal and uninsured payments for public health systems, including additional state funding and a decrease in the burden of providing the non-federal share, our systems could be forced to significantly reduce services.

The Governor's budget language to reform public hospital payments serves as a recognition of this crisis, and an important step to preserve and expand access to high quality, culturally competent care for millions of Californians. It recognizes the vital role PHS play in the state's safety net and the need to work together to reform our essential funding. Additional state investment is needed to ensure public health care systems can continue to provide high quality, accessible care to our patients, and we appreciate the Administration's recognition to move this work forward.

Public health care systems are proud of our work to improve care in Medi-Cal and are eager to contribute to the state's broader goals in Medi-Cal to improve quality, address equity and achieve overall improved health for Medi-Cal beneficiaries. We look forward to working with the Legislature and the Administration to identify strategies to further support and invest in public health care systems.

Sincerely,



Erica B. Murray
President and CEO
California Association of Public Hospitals and Health Systems

cc: The Honorable Members of the Senate Budget Subcommittee 3 on Health and Human Services
Scott Ogus, Consultant, Senate Budget Subcommittee 3 on Health and Human Services
Anthony Archie, Consultant, Senate Republican Caucus
Dr. Mark Ghaly, Secretary, California Health and Human Services Agency
Michelle Baass, Director, Department of Health Care Services
Jacey Cooper, State Medicaid Director, Department of Health Care Services
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