CAPH

Federal & State Policy Update

IMPLICATIONS FOR PUBLIC HEALTH CARE SYSTEMS

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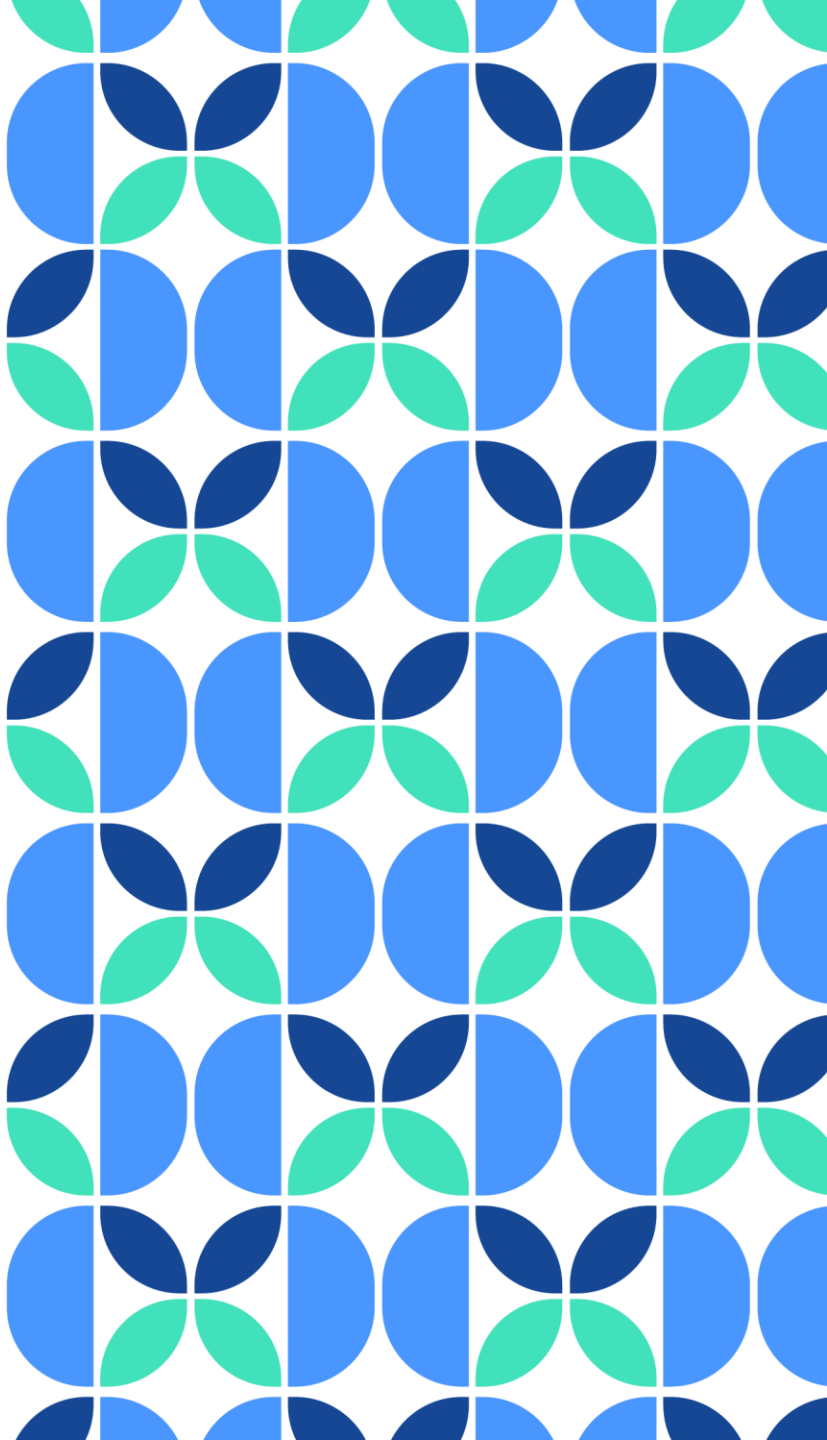

Objectives

1. Provide updates on
   - Impact from H.R. 1/Budget Reconciliation
   - Potential Further Federal Action
   - State Budget Decisions: Past & Future

2. Answer Questions

H.R. 1 IMPLEMENTATION TIMELINE

2025

OCTOBER 1, 2025

DSH Cuts Take Effect: $8 billion in annual Disproportionate Share Hospital (DSH) cuts move forward as scheduled.

DECEMBER 31, 2025

Rural Relief Fund: States must apply to CMS for funding under this program.

JULY 4, 2025

Limits on SDPs:
State Directed Payments (SDPs) submitted after this date are capped at 110% of the "total published Medicare rate" for non-expansion states and 100% for expansion states.

Existing SDPs are grandfathered and exempt from these limits until January 1, 2028.

Uniformity Requirements Take Effect:
States must restructure provider taxes to apply the same rate to Medicaid and non-Medicaid services or risk losing federal funding.

Family Planning Provider Ban: One-year ban on federal Medicaid funding to providers mainly offering family planning (aimed at Planned Parenthood).

2026

EARLY 2026

180 days after enactment; around January 1, 2026
HHS must issue guidance on new six-month Medicaid eligibility checks.

OCTOBER 1, 2026

Reduction in FMAP for Emergency Services for Undocumented Childless Adults
Federal match for emergency care for undocumented adults drops from 90% to 50%.

2027

JANUARY 1, 2027

1115 Waiver Budget Neutrality:
All new 1115 demonstrations must meet federal budget neutrality requirements.

Medicaid Community Engagement (Work) Requirements:
States must begin enforcing work requirements for adults ages 19–64. ***States showing good faith effort may receive exemptions through December 31, 2028.***

Medicaid Eligibility Redeterminations:
States must begin conducting eligibility checks for expansion adults every six months.

Medicaid Retroactive Coverage Limitations:
Retroactive coverage reduced to one month for expansion enrollees, two months for traditional enrollees.

2028

JANUARY 1, 2028

State Directed Payment (SDP) Phase-Down Begins:
Grandfathered SDPs begin 10% annual reductions until reaching 100% of Medicare rates

OCTOBER 1, 2028

Provider Tax Reductions Begin:
Expansion states must reduce provider taxes from 6% to 3.5% by FY 2032; long-term care excluded. Non-expansion states capped at current rates.

New Copay Requirements:
$35 copays required for expansion adults over 100% FPL.

CAPH CALIFORNIA ASSOCIATION OF PUBLIC HOSPITALS & HEALTH SYSTEMS

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Takeaways/Lessons Learned from H.R. 1

- Moderate Republicans were key in preventing across-the-board FMAP reductions
- Senate Parliamentarian's ruling regarding the FMAP penalty were also hugely impactful
- But overall, the conventional wisdom regarding strength of red state concerns was disproven
  - Already seeing pushback, e.g, Hawley bill
- Re SDPs:
  - CA's PHS extremely fortunate to have secured significant increases ($1.B net) in Jan 2025
  - CMS has tremendous discretion in interpreting language (e.g., what does it mean exactly to be capped? What constitutes a new program that would be subject to Medicare limits?)
    - Anticipating federal guidance
- Will need to consider alternative funding sources

Other Real & Potential Executive Actions

Medicaid DSH Cuts (Oct 1, 2025)

- Have been successfully delayed or eliminated since 2014
- Strong bipartisan support
- Included in House version of H.R. 1, but stripped in Senate
- For CCHS, $44M in federal funding annually

Second Budget Reconciliation

- Freedom Caucus members seek further FMAP reductions, ACA rollbacks

Possible Federal Regulations:

- Former CMS officials have confirmed that Admin seeks to issue “MFAR 2,” a proposed reg that would curtail our ability to use IGTs to finance Medicaid

Other Real & Potential Executive Actions, Cont'd

CalAIM Waiver Renewal (Dec 2026)

- CA's 1115 waiver, including the Global Payment Program, will likely be denied

  For CCHS:

  - $8.8M in Safety Net Care Pool (federal) at stake
  - ~$22M of DSH funding at risk (half of $44M total)

Federal Workforce Challenges

- DOGE efforts and CMS staffing cuts may slow waiver/SPAs review and implementation timelines

Equity & Gender-Affirming Care

- Executive actions targeting equity-focused programs and GAC

State Budget Negotiation Overview: Major Issues

Governor's May Revise Proposal	Legislative Response
Enrollment Freeze for UIS adults (as of 1/1/26)	Modify to clarify no "age out" and establish a 6-month re-enrollment grace period
Elimination of FQHC PPS Rates for UIS patients (as of 1/1/26) Services reimbursed at either applicable fee schedule, FFS rate, or negotiated managed care rate	Delay implementation of FQHC PPS payment elimination until 1/1/27
$100 monthly premium (as of 1/1/27)	$30 monthly premium for UIS adults (19-59)
Dental & Long-Term Care Benefit Reductions (as of 1/1/26)	Rejects LTC elimination; Delays dental elimination to 1/1/27
Sweeps most MCO Tax Buckets to the General Fund (leaves the $150M for PHS)	Same

Final Agreement – For Now

Freezes enrollment for UIS adults 19+; includes a 3-month re-enrollment grace period that requires repayment of any unpaid premiums, beginning January 1, 2026
Eliminates FQHCs PPS rate for UIS patients, delayed to July 1, 2026
$30 monthly premium, delayed to July 1, 2027)
Maintains Long-Term Care Benefits for UIS patients
Elimination of state-only dental for UIS patients delayed to July 1, 2026
Sweeps most MCO Tax Buckets to the General Fund (maintains the $150M for PHS)

State Advocacy Strategy: A Two Phased Approach

- **Phase I: Education & Immediate Impacts to the State's Budget**
  - **Objective:**
    - Provide general education to the Legislature regarding the substantial impacts of HR 1 to California's PHSs, highlighting the impacts of the state budget cuts, funding lost with the GPP disallowance, and advocating to ensure there are no additional cuts to PHSs.
  - **Timing:**
    - Timing on the immediate actions is unclear – the Legislature may try to address this as soon as August, the Governor could call a special session this fall, or the Legislature could potentially wait until January.
  - **Considerations:**
    - Expectation that MCO tax no longer allowed due to new requirements in H.R. 1-potentially as much as a $3.5b gap in state General Fund in this year's budget.

- **Phase II: 2026 & Beyond (Implementation, Defense, & Delay Tactics)**
  - **Objective:**
    - Because most of the other provisions in H.R. 1 take effect in 2026 or later, Phase II of our advocacy will be focused on implementing specific provisions, defending against further cuts, and working to delay specific provisions.
  - **Considerations:**
    - State will need to deal with both implementation and the significant cuts in federal funding

Coalition Working to Develop Alternative to UIS Changes

- CAPH is working with provider, plan and county partners to explore a more affordable, sustainable coverage option for UIS adults to preserve access to care amid budget constraints.

- Currently seeking to secure foundation support for policy, actuarial, legal and other technical expertise to develop several potential options/structures to consider

- Legislative leaders eager to be involved

- Work likely to continue through the fall

Phase One Advocacy Strategy: Key Messages

PHS Are the Ultimate Safety Net Backstop & Must Be Protected

- Patients mainly on Medi-Cal or uninsured
- Provide important access to care, including primary and specialty care—PHS have more than 150 clinics
- provide broader community services—trauma, burn centers, workforce training
- Section 17000 requirements

PHS Are Already Facing Enormous Federal Medicaid Cuts – Don’t Make It Worse

- Explain implications for access to care in our communities
  - Service reductions/closures
  - Potential loss of broader community services
  - Increased wait time at emergency departments

Questions?