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June 30, 2015

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The Honorable Ed Hernandez
Chair, Senate Public Health and
Developmental Services Committee
State Capitol, Room 2080
Sacramento, CA 95814

The Honorable Mike Morrell
Vice Chair, Senate Public Health and
Developmental Services Committee
State Capitol, Room 3056
Sacramento, CA 95814

Dear Senators Hernandez & Morrell:

The California Association of Health Plans (CAHP), representing 45 public and private organizations that collectively provide health coverage to more than 21 million Californians, is writing to reinforce testimony made during budget subcommittee hearings regarding the Administration's January budget proposal to enact an alternative to the existing Managed Care Organization (MCO) tax.

CAHP recommended the subcommittees reject the Administration's January proposal to revise the existing Managed Care Organization (MCO) Tax while our member health plans and the Administration continue to work on an alternative tax.

California's managed care plans believe that any new MCO Tax must directly benefit the Medi-Cal program, be equitable to payers of the tax, and consider affordability to purchasers of health coverage. The proposed tax did not meet these goals and therefore did not garner support from our plans.

California's existing MCO tax provides important financial support to health care programs for low income Californians in a way that does not raise taxes on individual and employer purchasers of health coverage. Health plans have supported the existing tax in past legislative sessions and have worked for its enactment.

Things have changed. California is now searching for an alternative funding source because our current MCO tax model appears to violate federal regulations. In response to the federal Centers for Medicare and Medicaid Services (CMS) guidance, the Governor's January budget broadened the tax to those who purchase commercial insurance.

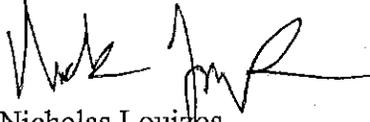
CAHP and our member plans are currently working with the Department of Health Care Services (DHCS) on developing an alternative. The task is made difficult by the constraints of the federal guidance and a solution that meets our goals has yet to emerge from our efforts.

Fortunately, the federal government is allowing states to keep their current MCO tax structure in place until the end of their respective legislative sessions. This gives California all of 2015 and 2016 to find an alternative to the MCO tax that is equitable, supports Medi-Cal, and is affordable. In the meantime, the current MCO tax remains in place generating revenue and does not expire until 2016.

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California's managed care plans look forward to continued work with the Administration and Legislature to find an alternative that can garner broad based health plan support.

Sincerely,



Nicholas Louizos
Vice President of Legislative Affairs

cc: Members, Senate Public Health and Developmental Services