



PROVIDER TAXES & STATE DIRECTED PAYMENTS

A VITAL TOOL FOR PROTECTING HEALTH CARE ACCESS IN CALIFORNIA

QUICK TAKE: MEDICAID PROVIDER TAXES



49 states have authorized provider taxes to help finance Medicaid in their state.



Without supplemental payments, including those funded by **provider taxes**, Medi-Cal's chronic underpayment for care would **drop from 80 cents** on the dollar **to 70 cents** for hospitals.



The Centers for Medicare and Medicaid Services (CMS) have **vetted and approved all provider taxes**.



Provider taxes are a vital part of hospital financing, without which service lines or **entire hospitals could close**.



State directed payments, often funded by provider taxes, **help keep hospitals and nursing homes open**.

PROVIDER TAXES AND STATE DIRECTED PAYMENTS ARE CRITICAL FOR THE VIABILITY OF MEDICAID (MEDI-CAL) PROVIDERS

In California, **provider taxes provide billions of dollars** in additional support for **providers like hospitals and nursing homes**, helping to stabilize these safety net providers.

Of the total California hospital reimbursement through Medi-Cal, **46% is funded through supplemental Medi-Cal payments**, comprising **nearly half of hospitals' Medi-Cal reimbursement**.

Like many other states, **CMS has approved multiple provider taxes** in California, many of which have been **approved for decades**. They have become a core part of how many states finance Medicaid.

Today, **60% of California's community safety net hospitals**, serving predominantly Medi-Cal patients, **are operating at a loss**. Elimination or drastic **reductions** in provider taxes **could result in a loss of access to care for the full population in entire regions** of the state.

CALIFORNIA'S MCO TAX BRINGS PROVIDERS INTO MEDICAID



A voter-passed initiative establishes **clear rules** for Medicaid funds generated by California's MCO tax and ensures that **99% of those funds** are used exclusively for patient care, healthcare provider reimbursements, and essential Medicaid services.



California's 2024 MCO tax ballot initiative earned **overwhelming support in Republican-leaning districts across California** — including **official endorsements** from the **California Republican Party** and more than 50 center-right organizations across the state.



With strict prohibitions against unauthorized use of funds, independent audits, and clear non-supplantation rules, California's MCO tax law sets a new standard of accountability and transparency for MCO taxes.



Any significant changes to provider tax rules will further exacerbate California's provider workforce shortages and access challenges in the Medi-Cal program.

NEARLY ALL STATES RELY ON PROVIDER TAXES TO SUPPORT MEDICAID



Federal Medicaid law authorizes provider taxes to help finance State Medicaid programs.



Provider taxes are in use by 49 states, and each must meet CMS approval before they are implemented.



The majority of states have multiple provider taxes that are in accordance with federal statute and regulations.



Provider taxes are a critical component of the Medicaid funding mix that ensures access to care – bridging a funding gap and playing a critical role in meeting the mandate to provide access to care.