Healthcare Funding Gaps

Bond Buyer California Public Finance Conference

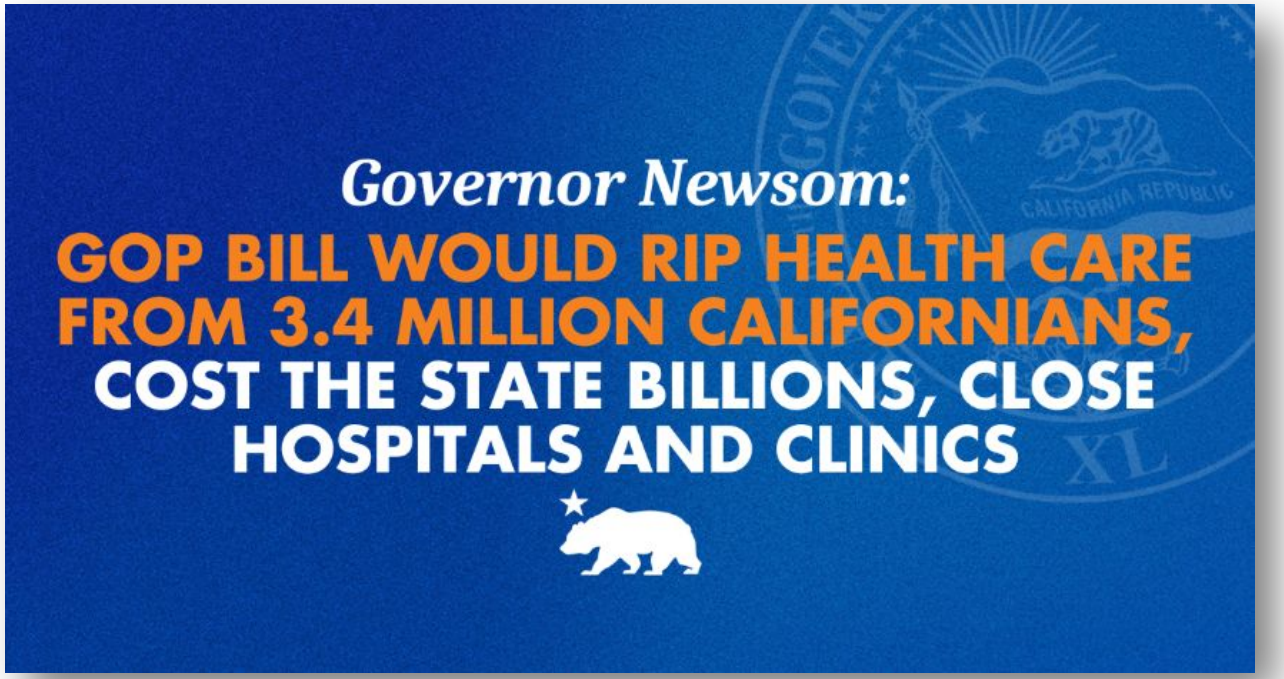
November 4, 2025

H.R. 1 – The "One Big Beautiful Bill" (OBBB)

- Enacted: July 4, 2025
- *What is it?*
  - Sweeping federal law that cuts over $1 trillion from Medicaid over 10 years, reshaping eligibility, enrollment, and provider financing.
- *Takeaways for hospitals?*
  - Limits on provider taxes and directed payments, risking supplemental funding.
  - Work requirements, biannual eligibility redeterminations, shorten retroactive coverage.
  - $35 cost-sharing per service for low-income adults starting in 2028.
  - Expect higher churn, more uninsured patients, and rising uncompensated care.

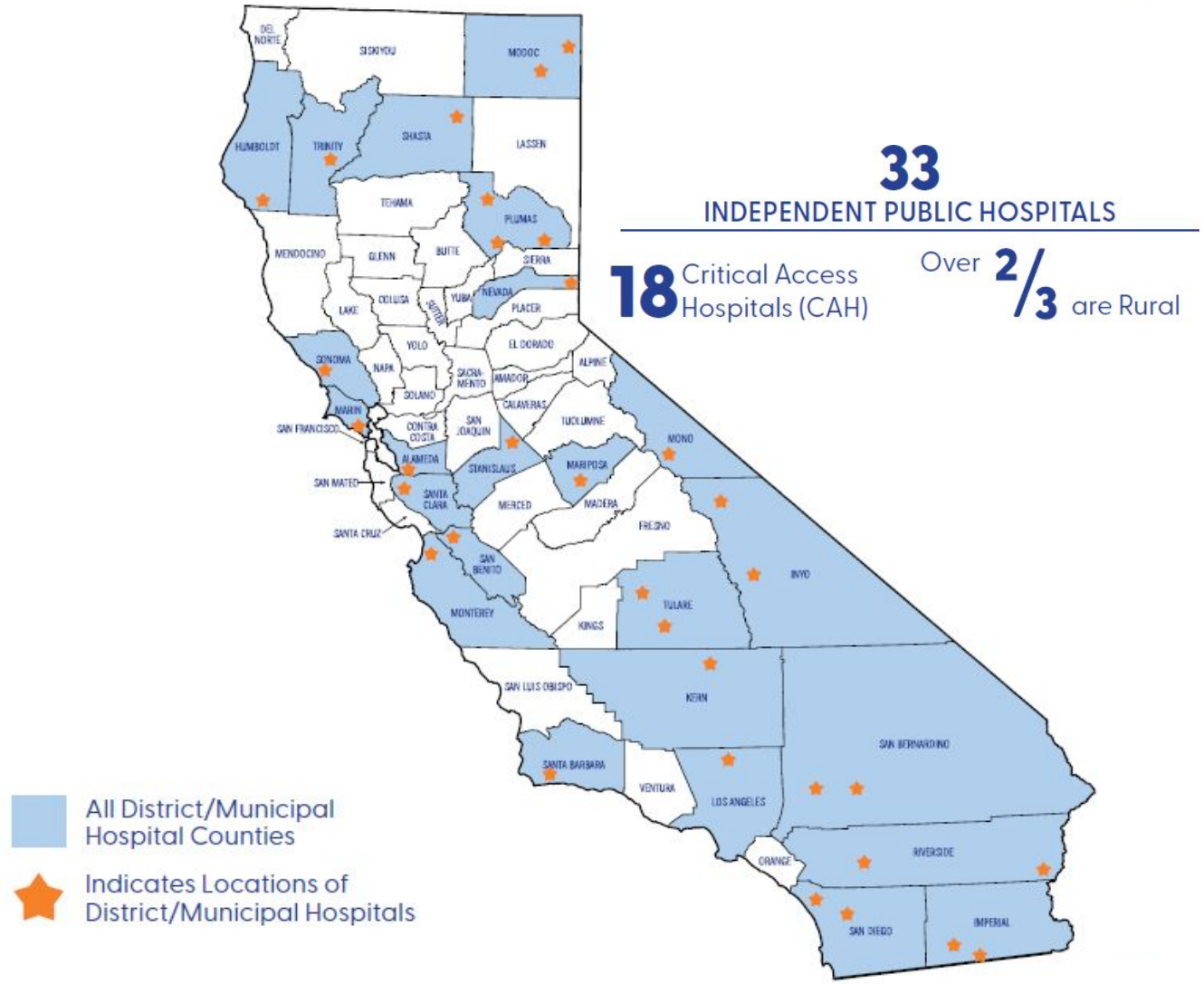
Expected Impact on California

- Governor's press conference stated Medi-Cal Impact:
  - 3.4 million lose Medi-Cal coverage,
  - Loss of $30 billion in federal funding
- California Hospital Association's estimate:
  - $66 billion to $128 billion over 10 years
  - 30% reduction in total Medi-Cal revenue
- Covered California estimates:
  - Roughly 30% or 600,000 of their 2.0 million will drop off the ACA exchange.
  - Without subsidy enhancements, average premiums will increase by 66%.



District Hospitals

- District and municipal hospitals are local governments responsible for providing the health care needs of their communities.
- Today, there are 33 district and municipal hospitals across California.
- Over two-thirds are rural, and more than half have a critical access hospital (CAH) designation. In most communities they are the sole provider of health care services.



District Hospital Snapshot

Fee-For-Service

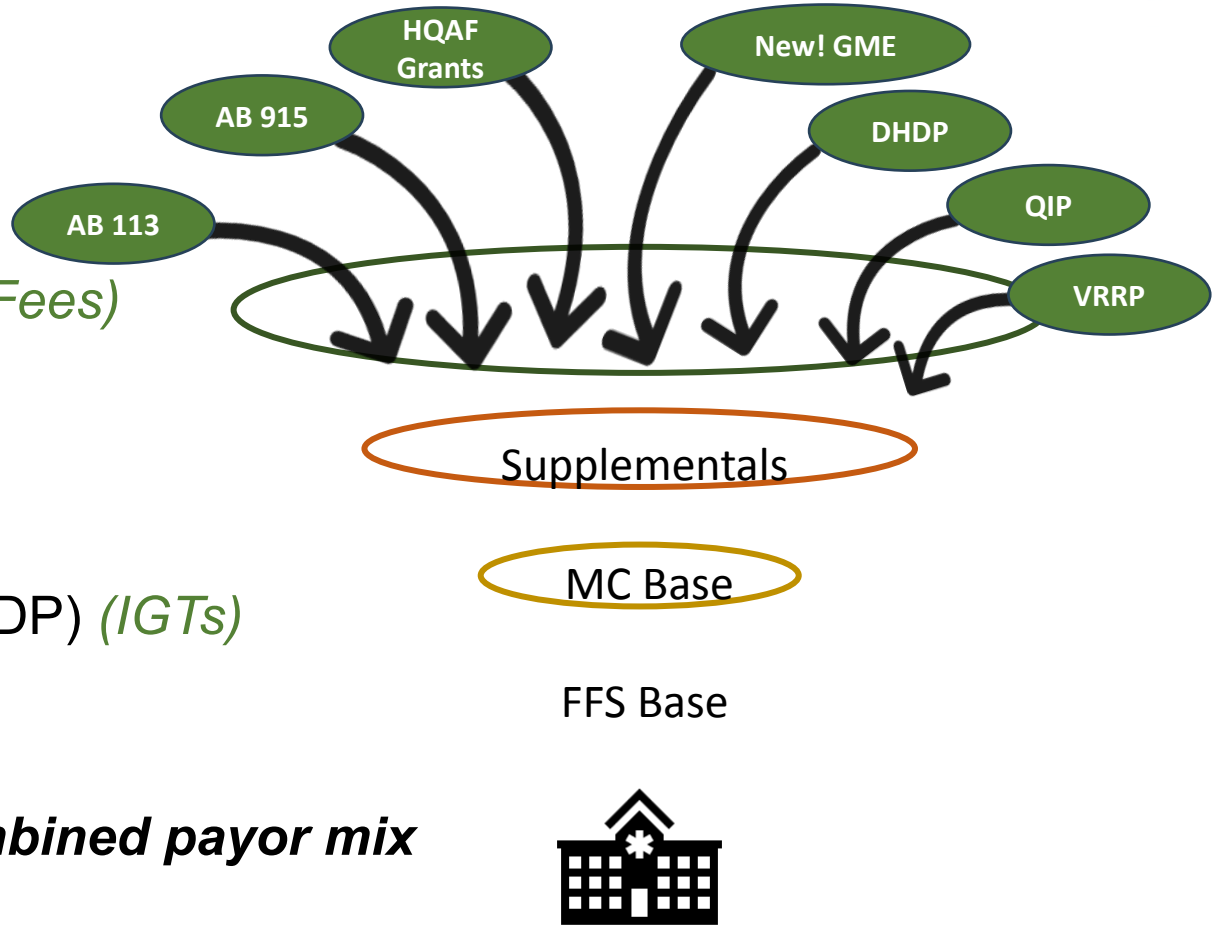
Supplemental Payments *(Self-Financed)*

- Inpatient: AB 113 *(IGT supported)*
- Outpatient: AB 915 *(CPE program)*
- Hospital Quality Assurance Fee Grants *(Private Fees)*

Managed Care

Supplemental Payments *(Self-Financed)*

- Quality Incentive Program (QIP) *(IGTs)*
- District Hospital Directed Payment Program (DHDP) *(IGTs)*
- Voluntary Rate Range Program (VRRP) *(IGTs)*



In 2023, Medi-Cal accounted for 46% of the combined payor mix for District Hospitals.

Impacts to District Hospitals

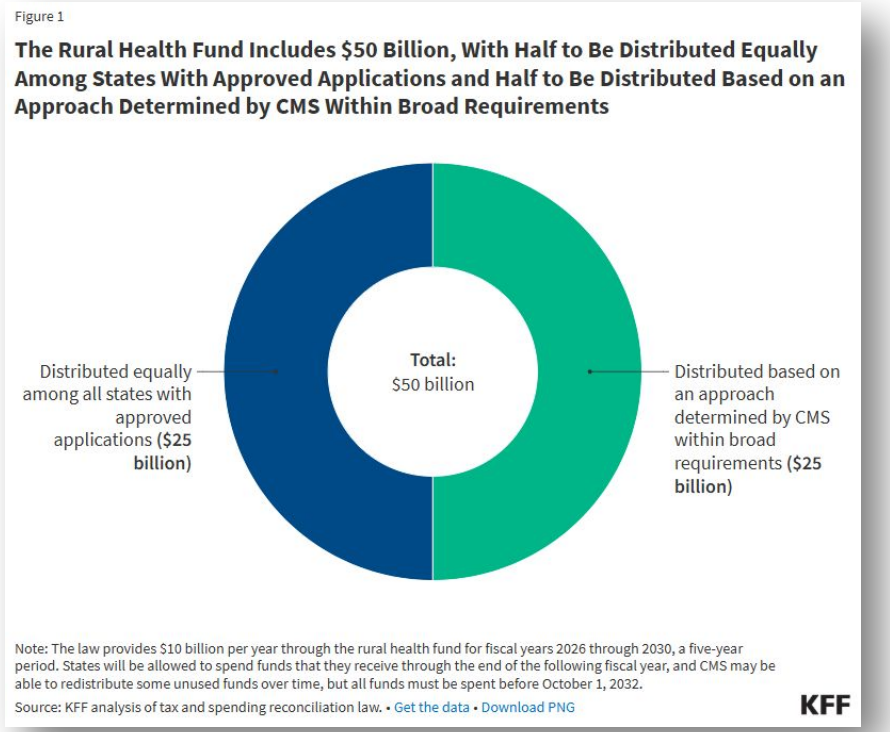
- We expect supplemental program revenues to decline by over 30% over the next five years.
- This estimated impact assessment does not consider the impact to Medi-Cal base rates (potential FFS policy changes or MC contracting), pending regulatory changes, Medicare sequestration changes, any potential offsetting Rural Health Transformation funding, increases in uncompensated care, or other Medi-Cal programmatic changes.

- Other complications:
  - Spending growth targets from the state's Office of Health Care Affordability constrains the ability for hospitals to seek significant rate increases to offset these declines.
  - California has 692 hospital buildings across 270 facilities that do not meet 2030 seismic safety requirements and will need capital to meet compliance. This represents two-thirds of hospitals in CA.
    - Cost estimates are in the tens to over one hundred billion range to complete this work.
  - State budget challenges are likely to prevent the ability to backfill federal funding cuts.

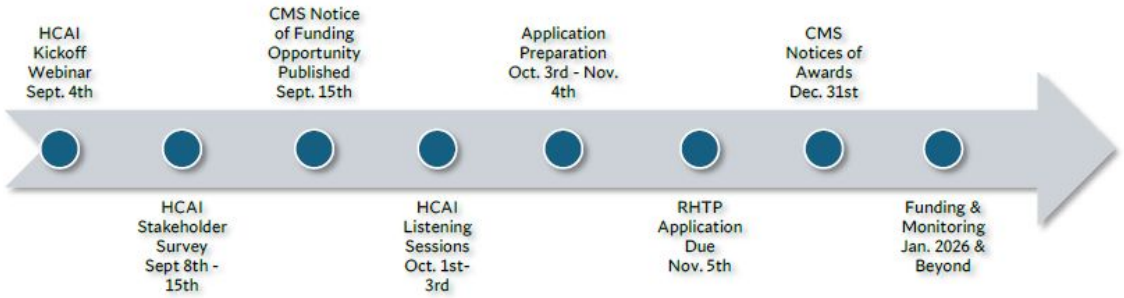
Rural Health Transformation Program

Overview:

- $50B available to states (FY 2026–2030); must be spent by Oct 1, 2032
- Half ($25B) awarded “equally to all approved states”—regardless of need or size
- Half ($25B) awarded based on CMS’s assessment of state rural needs and application quality
- States may use funds for programs that:
  - Promote measurable care interventions,
  - Pay providers for provision of health care items or services,
  - Expand the rural health workforce,
  - Create technological efficiencies for system transformation
- California’s application being prepared by HCAI



Timeline of Activities:



- ***Intention is for RHTP to develop sustainable, transformative programs for rural health facilities, not to backfill cuts occurring because of HR 1.***