October 6, 2026

The Honorable Chief Justice and Associate Justices
Supreme Court of California
350 McAllister Street
San Francisco, CA 94102-4797

Electronically submitted

Re: California Association of Health Plans et al. v. California Department of Health Care Services et al., Case No. S298916, Amicus Curiae Letter of Local Health Plans of California in Support of Petition for Writ of Mandate

Dear Chief Justice and Associate Justices:

Local Health Plans of California ("LHPC") respectfully submits this letter urging the Court to exercise its original jurisdiction over the petition for writ of mandate filed by the California Association of Health Plans and the California Medical Association on October 1, 2026. LHPC is a statewide trade association that represents all 17 community-based, not-for-profit health plans that provide access to critical and comprehensive healthcare services for low-income populations enrolled in California's Medicaid program ("Medi-Cal") in 51 out of 58 counties in the state. Our plans serve approximately 70 percent of all Medi-Cal managed care beneficiaries. LHPC's members arrange care for Medi-Cal enrollees, pay the providers who deliver that care, and are subject to the MCO tax. This case directly affects a key revenue stream that LHPC members rely upon to provide care to more than 9 million Californians.

The petition challenges Senate Bill 125 ("SB 125"), which restructures California's managed care organization ("MCO") tax, and asks the Court to bar its implementation and to direct the Department of Health Care Services ("DHCS") to submit to the Centers for Medicare & Medicaid Services ("CMS") an MCO tax that complies with both Proposition 35 and federal law.

Proposition 35 (the Protect Access to Health Care Act of 2024) was approved by nearly 68 percent of California voters in 2024. The measure made the MCO tax permanent under state law, subject to federal approval, providing a permanent funding stream for the Medi-Cal program and establishing a framework for using MCO tax revenues to increase access to care, bolster provider reimbursement, and strengthen California's health care workforce. It also expressly prohibits the funds from supplanting or replacing existing sources of funding for the Medi-Cal program, reflecting voters' intent that this dedicated funding directly support the Medi-Cal program, which covers one in three Californians. The MCO tax is a critical component of Medi-Cal financing, with the Legislative Analyst's Office estimating that the existing tax generates approximately $7 billion to $8 billion in net revenue annually. (Legis. Analyst's Office, The 2026-27 Budget: Medi-Cal Analysis (Mar. 2026) pp. 5, 18.) This funding supports the stability of the Medi-Cal delivery system and, ultimately, access to care for millions of California's most vulnerable and economically disadvantaged individuals.

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SB 125 takes a materially different approach to the MCO tax. Rather than continuing the Proposition 35 framework, SB 125 modifies the MCO tax for 2027 through 2029 by increasing the rate to $8.85 per countable enrollee per month, covering enrollment across health plans, and directs the resulting revenues into a newly created Medi-Cal Stability Fund. Those revenues are prioritized for state administrative costs, the nonfederal share of increased managed care capitation payments, specified provider payments, and at least $2 billion annually toward Medi-Cal managed care rates. In short, SB 125 changes both the amount and the uses of the MCO tax in ways that run counter to Proposition 35.

The urgency of resolving questions raised by the juxtaposition of SB 125 and Proposition 35 cannot be overstated. California's existing MCO tax is authorized through December 31, 2026. By that date, California must submit to CMS a tax that is authorized by state law and consistent with federal Medicaid requirements, effective January 1, 2027, to preserve the federal financial participation associated with the tax. Federal law now sharply restricts new and increased provider taxes and prohibits tax structures that place a disproportionately higher burden on Medicaid business. CMS has allowed California's existing MCO tax to remain in effect through the end of 2026, but the existing structure will not remain federally approvable after that date. California therefore has less than three months to submit a compliant successor tax, or risk losing billions of dollars in revenue which will directly destabilize the Medi-Cal program and threaten the care of California's most vulnerable individuals.

The State's current two-component approach presents substantial risk. One proposed component would retain the existing tax structure sufficiently to comply with Proposition 35 but is inconsistent with the federal rules now governing MCO taxes and therefore is unlikely to receive federal approval. The other component, enacted through SB 125, is designed to satisfy the new federal requirements but may violate article II, section 10, subdivision (c) of the California Constitution by improperly amending an initiative statute. California cannot safely assume that either component will provide the secure bridge necessary to preserve federal funding beginning January 1, 2027. Additionally, because federal law now restricts new and increased MCO taxes, a failure to submit a compliant tax by December 31, 2026, may not be curable later and could result in a persistent, structural reduction in California's capacity to finance the Medi-Cal program for years to come.

In partnership with the broader Medi-Cal community, LHPC respectfully urges the Court to exercise its original jurisdiction and grant the petition for writ of mandate to require, issue an order to show cause, and set an expedited schedule that will allow the Court to require DHCS to submit to CMS, no later than December 31, 2026, an MCO tax structure that complies with both Proposition 35 and federal law. LHPC further urges the Court to ensure that revenues generated through the MCO tax are used consistently with the Proposition 35 framework. Prompt action is necessary not only to protect the federal funding available in 2027, but also to preserve California's ability to maintain this critical source of Medi-Cal financing over the longer term.

Respectfully submitted,



Linnea Koopmans
Chief Executive Officer
Local Health Plans of California

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