

California is Breaking the Law

and California Families are **Paying the Price**



California's Proposed MCO Tax Violates the Law and Worsens the State's Health Care Affordability Crisis.

THE LAWSUIT

The California Medical Association and California Association of Health Plans have filed a lawsuit challenging the state's Managed Care Organization (MCO) tax structure because it violates Proposition 35, approved by nearly 68% of California voters in 2024.

California voters enacted a law. The state has to follow it.

THE TAX

California's 2026-27 state budget and SB 125 restructures the state's MCO tax, violating the law by:

- Increasing the tax tied to commercial health plans by more than three times the limit approved by Prop 35.
- Diverting the revenue generated to backfill General Fund shortfalls instead of expanding access to Medi-Cal.

THE LAWSUIT ASKS THE COURT TO REQUIRE THE GOVERNMENT TO:

- 1 Follow Proposition 35 which is state law.
- 2 Pursue an MCO tax structure that complies with both Proposition 35 and federal law.
- 3 Use MCO tax revenue consistent with the dedicated funding requirements established by voters.

WHAT PROPOSITION 35 REQUIRES

Prop 35 was designed to create a stable, dedicated funding source for Medi-Cal and includes key consumer and health care funding protections.



Permanently establishes the Managed Care Organization (MCO) tax as a funding mechanism for Medi-Cal pending federal approval



Requires the funds to be spent on increasing access to Medi-Cal, not the general fund



Caps the tax on commercial health coverage to \$2.50 per member, per month



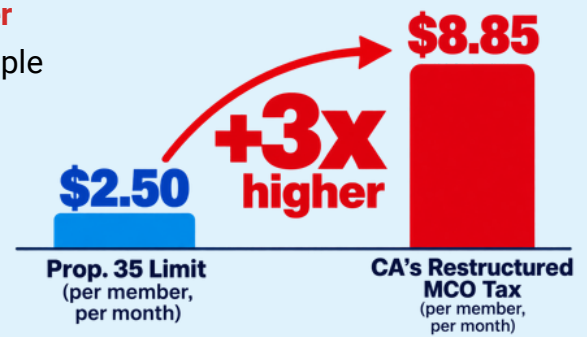
Requires a three-fourths vote of the Legislature to amend the law

HOW THE NEW MCO TAX CONFLICTS WITH PROP. 35

The **state budget** included a flat tax of **\$8.85 per member, per month** on commercial health coverage, which is more than triple the limit set by Prop 35.

According to the nonpartisan Legislative Analyst's Office, **approximately \$1.5 billion, or two-thirds** of the net funding generated by the renewed tax, would come from private enrollment.

It is estimated that the tax will **increase health care premium costs by over \$100 per member, per year, or over \$400 each year for a family of four.**



WHERE THE MONEY GOES

Under Voter-Approved Prop. 35

MCO tax revenue is dedicated to supporting Medi-Cal and improving access to care.



Medi-Cal health care services



Improved access to care



Stronger health care programs

This Year's Budget

MCO tax revenue is used to backfill the state's General Fund.



Offsets the State's General Fund

WHY THIS MATTERS TO CALIFORNIANS

A Tax on Health Coverage Doesn't Stop at Health Plans

Higher taxes on commercial health coverage ultimately means higher premiums for California families and employers. Rather than following the law under Prop 35, the state is using a health care tax on working families to solve the state's budget shortfall, leaving long-term Medi-Cal funding at risk to cover this year's shortfall.

THE WALL STREET JOURNAL.

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