The Local Health Plans of California ("LHPC") represents the 16 non-profit, community-based health plans which cover 70% of all Medi-Cal managed care enrollees. Since it was announced in February, LHPC has conveyed its strong opposition to the Administration's proposal to enter into a statewide, no-bid contract with Kaiser Permanente, or the Alternate Health Care Service Plan (herein referred to as "Kaiser"). The policy changes proposed in the Administration's trailer bill language, which have since been amended into AB 2724 (Arambula), are flawed and deeply concerning. **The proposal undercuts the public plan model which has existed in California for nearly 40 years, makes changes to the Medi-Cal delivery system that are inequitable for Medi-Cal enrollees, and harms the local safety net while advancing the growth and interests of a single commercial health plan. For these reasons, LHPC opposes the proposal for a direct, statewide Kaiser Medi-Cal contract.**

Undermines Local Governance

Local plans have a long history of serving their local communities. The County Organized Health Systems ("COHS") and Local Initiative ("LI") plans were formed through county ordinance to meet the health care needs of underserved populations in their communities through a unique model that is publicly operated. Since the early 1980s, 15 COHS and LIs were established across 35 counties in California for this purpose. This model is consistent with California's approach to Medi-Cal, which recognizes that counties and local stakeholders understand the needs of their communities and are best suited to design a local delivery system to meet those needs. Local plans are also locally governed and accountable, with their boards including county supervisors and provider safety net leaders, among others. The COHS and LI model has been so effective that 14 additional counties went through a year-long public process, which culminated in the passage of county ordinances, to join an existing COHS or LI in 2024.

The proposal fundamentally alters California's public plan model and represents a de facto end to the COHS model. The hallmark of a COHS plan is that it serves all Medi-Cal managed care beneficiaries in a county, a feature which is characterized in federal statute, recognized in authorizing state statute, and described in every federal waiver authorizing Medi-Cal managed care. **The proposal's statewide contract between Kaiser and DHCS bypasses local process, undermines the critical role of counties and local stakeholders in deciding what works best for their communities, and erodes California's public plan model.**

Inequitable Enrollment Rules Guarantees the Safety Net Will Serve Sicker and Costlier Patients

The proposal seeks to give Kaiser the ability to enroll the healthiest Medi-Cal members. The only Medi-Cal beneficiaries who will be able to enroll into Kaiser under this proposal are those who were recently commercially insured by Kaiser, have an immediate family member enrolled in Kaiser, individuals dually eligible for Medi-Cal and Medicare, and foster youth. The continuity of care rules exclude some of the most vulnerable and medically complex Medi-Cal populations, including those who are unhoused, justice-involved, or who do not have satisfactory immigration status. Meanwhile, the bill grants Kaiser unlimited enrollment of duals who are a more profitable population due to their Medicare coverage, and foster youth who generally have a high level of behavioral health needs.

In addition to creating an inequitable system for Medi-Cal enrollees, these enrollment rules result in local plans and their contracted safety net providers serving populations that have higher health and social needs, the very populations that are a focus of CalAIM. This disparity already exists in counties where local plans contract with Kaiser today. In fact, in those counties, the population of seniors and persons with disabilities – the group with the most complex and costly health conditions – enrolled in local plans is nearly 50% more acute (in need of more and more intensive services) than the same population that is enrolled in Kaiser. **As Kaiser continues to grow its coverage of healthier Medi-Cal enrollees, the populations served by local plans, public hospitals, and federally qualified health centers will be even more disproportionately sick and costly.**

Risks Shifting Access Rather than Creating New Access

While not directly addressed in trailer bill language or AB 2724, the Administration has committed to helping Kaiser grow its Medi-Cal enrollment by 25% over the contract term. This will exacerbate the acuity discrepancy between members served by local plans and Kaiser, as described above. In addition, in order keep pace with their growing Medi-Cal enrollment, Kaiser may expand their contracting with non-Kaiser Medi-Cal providers rather than ensuring services are delivered through its integrated, closed network. This practice would run counter to the logic of the proposal, which indicates that Kaiser cannot compete in procurement because of its physical limitations and unique role as a plan and provider. More importantly, it means that Kaiser may provide limited new access in the Medi-Cal program. **The extent to which Kaiser contracts with non-Kaiser providers to ensure access for its Medi-Cal members has direct consequences for Medi-Cal beneficiaries not enrolled in Kaiser. Access will simply shift from one entity to another, meaning decreased access to care for non-Kaiser members.**

Grants Overly Broad Authority to DHCS

Finally, the trailer bill language and AB 2724 includes grants DHCS broad authority to contract with Kaiser in any geographic area of the state. Not only does this undermine the local plan model, but it also means that **DHCS could make changes to its contracting arrangement with Kaiser without any corresponding changes in statute, and thus without consultation with the Legislature, counties, local plans, and other Medi-Cal stakeholders.**

Through its collective wisdom, California's state and local leadership have long acknowledged that health care is most effective when counties and local stakeholders are given the opportunity to design a system that will meet the needs of their communities. **The proposal for a no-bid, statewide Kaiser contract supports the interests of a commercial health plan at the expense of the public Medi-Cal delivery system and the beneficiaries it serves.**