

March 28, 2023

The Honorable Dave Cortese  
Chair, Senate Committee on Labor, Public Employment, and Retirement  
1021 O Street, Suite 6740  
Sacramento, CA 95414

**Re: SB 525 – OPPOSE UNLESS AMENDED  
As Amended – March 28, 2023**

Dear Senator Cortese:

CaliforniaHealth+ Advocates, the advocacy affiliate of the California Primary Care Association, representing nearly 1,300 community health centers throughout the state, regrettably opposes, unless amended, Senate Bill 525 (Durazo).

Community health centers (CHCs) provide high-quality, comprehensive care to 7.2 million people in California each year. Our members provide the full spectrum of care, from primary care, dental, and behavioral health services, including a variety of enabling and wraparound services. In many rural communities, CHCs serve as the only source of medical and wellness care for low-to-middle income families in the region. While we appreciate the intent of the bill to support the healthcare workforce in our state, CHCs cannot implement the requirements of the legislation, and fear significant adverse impact to the health care delivery system for our state's most vulnerable communities, in its current form.

The urgent workforce and funding concerns for California's health care providers are real. It is for this very reason California Health+ Advocates have, for years, highlighted the healthcare workforce shortages and requested over \$150 million in new workforce investments and other resources last legislative session to directly benefit health care providers, especially at CHCs. SB 525, as currently drafted, would significantly impact CHCs' ability to provide care due to the cascading effect these dramatic wage increases would have without a sustainable funding source. At minimum, CHCs would require a federally approved mechanism for health centers to adjust their Prospective Payment System (PPS) rates and a delayed implementation to ensure sufficient time to operationalize such changes.

PPS Challenges

Because Community Health Centers primarily serve patients enrolled in publicly funded health coverage programs, CHCs are paid for the care they provide through a complex structure governed by state and federal law. Federally Qualified Health Centers (FQHCs) are paid a predetermined rate through PPS that encompasses reimbursement for a set of eligible services provided during a single visit. PPS is restrictive and encounter-based, and a FQHC will only receive its PPS rate if 1) the service is defined as an allowable encounter or set of services as defined under PPS, 2) only one billable service is provided to a patient per day (exception is a

medical and dental visit can be provided on the same day), and 3) the service is completed by a billable provider.

Current law only allows a CHC to change their reimbursement rate through a change in scope of service request (CSOSR), under strict circumstances. Those ‘triggering events’ do not include state-mandated wage increases. The Centers for Medicare and Medicaid Services (CMS) strictly prohibits a CSOSR that is exclusively due to increased costs (including wages). In practice, PPS places CHCs on a ‘fixed income’ that is not easily modified to meet industry pressures or state-mandated wage increases. Thus, in order for CHCs to implement the provisions of the legislation, the state would need to seek approval from CMS granting the ability to complete a CSOSR due to a state-mandated wage increase. Thereafter, our California State Plan would need to be amended to reflect such an ability to adjust a PPS rate strictly on the basis of a state-mandated wage increase.

#### Wage and Salary Compression

Notwithstanding the specific challenges faced by our CHCs to implement the provisions of the legislation, there are broader financial challenges not truly considered by SB 525’s language. The bill not only proposes a \$25 minimum wage, but also requires the minimum to be increased annually by ‘*the greater of 3.5 percent or the rate of change in the averages of the most recent July 1 to June 30, inclusive, period over the preceding July 1 to June 30, inclusive, period for the United States Bureau of Labor Statistics nonseasonally adjusted United States Consumer Price Index for Urban Wage Earners and Clerical Workers (U.S. CPI-W).*’ This annual increase would create cost pressures not supported by federal or state law and would require CHCs to request a change in scope of services on an annual basis (pending CMS approval for annual adjustments based on mandated wage increases). The Department of Health Care Services (DHCS), which evaluates and assesses the validity of such requests, may not be able to keep up with the workload associated with processing increased CSOSRs.

SB 525 also requires exempt employees at CHCs to earn a monthly salary equivalent to no less than double the minimum wage in order to qualify as exempt from the payment of minimum wage and overtime laws. This would require any salaried employee to make at least \$104,000 per year. Moreover, the minimum wage increase would require CHCs to reevaluate all workers’ wages throughout the health center. In order to maintain internal equity for all staff, wage increases would be required throughout the organization. This would have tremendous impact to the finances of our CHCs as many health centers are operating under thin or no margins. These provisions would likely lead to a reduction in overall staff, a shift from salaried employees to hourly employees, and in some circumstances, extreme financial hardship leading to significant reductions of patient services or closure altogether.

#### Implementation Timeline

Finally, SB 525 requires its provisions to go into effect on January 1, 2024. This timeline is not possible for CHCs. Our members cannot simply increase the cost of its services, like other industries or other health care providers. CHCs would need the support of both the CMS and DHCS to update California law to allow a CSOSR to meet the requirements of the bill. If approval was secured, at the earliest, a January 1, 2026, implementation date would be required.

Summary of Amendments

While CaliforniaHealth+ Advocates understands and appreciates the intent of the legislation, the current language cannot be implemented by CHCs. The bill would need to be amended as follows:

- Include language delaying implementation until funding is appropriated by the Legislature or another funding mechanism;
- Include language delaying implementation for CHCs contingent on CMS providing the necessary regulatory approval;
- Include language permitting CHCs to make a change in scope of service request to increase its PPS rate to meet the requirements of this legislation;
- Remove the provision requiring employees earn a monthly salary equivalent to no less than double the minimum wage in order to qualify as exempt from the payment of minimum wage and overtime laws (Section 1182.14(f));
- Remove the annual increase in the minimum wage a year after implementation (Section 1182.14(d)(1)); and
- Remove language capturing independent contractors (Section 1182.14(b)(1)(A)(i));

For the reasons detailed above, SB 525, as currently drafted, will harm community health centers across the state and reduce patient care for our state’s most vulnerable communities. While well intentioned, CaliforniaHealth+ Advocates respectfully requests consideration of alternative approaches to help support California’s healthcare workforce. We look forward to working with the author and stakeholders to make sure we find a sustainable solution to support the healthcare workforce in California.

Sincerely,



Dennis Cuevas-Romero  
Vice President, Government Affairs  
CaliforniaHealth+ Advocates

CC: Senator Maria Elena Durazo  
Members of Senate Committee on Labor, Public Employment, and Retirement