# Agenda Item

Orange City Council

**Item #:** 3.5. 8/25/2026 **File #:** 26-0445

**TO:** **Honorable Mayor and Members of the City Council**

**THRU:** **Jarad Hildenbrand, City Manager**

**FROM:** **Alan Velasco, Fire Chief**

## 1. SUBJECT

Agreements with the California Department of Health Care Services and CalOptima for a one-time Intergovernmental Transfer for Fiscal Year 2026-2027

## 2. SUMMARY

Request for City Council approval to participate in a one-time Intergovernmental Transfer for the twelve-month period ending December 31, 2025, to secure additional federal Medicaid funding for unreimbursed ambulance transport costs through the California Department of Health Care Services.

## 3. RECOMMENDED ACTION

1. Approve the agreements with California Department of Health Care Services and CalOptima authorizing the City's participation in a one-time Intergovernmental Transfer for the Twelve-month period ending December 21, 2025; and authorize the Mayor and City Clerk to execute on behalf of the City.
2. Authorize an advance not to exceed $826,000, covering the City's estimated non-federal share of $655,139, the required 20% assessment fee, and a 5% contingency for possible reconciliation adjustments, for a one-time Intergovernmental Transfer from the EMT Fund (225) to the California Department of Health Care Services.

## 4. FISCAL IMPACT

Reimbursable funds of $826,000 will be advanced to obtain approximately $1,840,000 in additional federal Medicaid funds received through increased Medi Cal managed care capitation rates, resulting in a net benefit of approximately $1,000,000, and will be advanced through the Emergency Transport Fund (225) respectively: 225-0000-12101.

## 5. STRATEGIC PLAN GOALS

Goal 2: Enhance Economic Development and Achieve Fiscal Stability

## 6. DISCUSSION AND BACKGROUND

The Intergovernmental Transfer (IGT) program is a financing mechanism authorized under the California Welfare and Institutions Code that allows local governmental entities to contribute public funds to the California Department of Health Care Services (DHCS), which in turn uses those funds to draw down additional federal Medicaid dollars. These federal funds are used to increase Medi-Cal managed care capitation rates paid to contracted health plans. Through this process, local government entities-such as the City of Orange-can recover a portion of unreimbursed Medi-Cal

costs associated with providing essential services.

Because the City provides ambulance transport services to Medi-Cal beneficiaries and incurs unreimbursed costs as a result, it is eligible to participate in the IGT program. Other local participants include Huntington Beach, Newport Beach, and the University of California, Irvine. In Fiscal Year 2025-26, the City received net IGT program revenue totaling $934,850.

DHCS invited the City to participate in the Calendar Year 2025 (CY25) cycle. Participation requires an Intergovernmental Agreement regarding the transfer of public funds with DHCS and separate Health Plan-Provider Agreements with CalOptima and Kaiser Foundation Health Plan Inc. (Kaiser). The previously approved Health Plan-Provider Agreement with Kaiser, which automatically renews unless terminated by either party, is attached for reference.

Under the Agreement, the City transfers funds to DHCS based on estimated unreimbursed Medi Cal charges, along with the required 20% administrative fee. DHCS uses these funds to support the non federal share of Medi Cal managed care capitation rate increases, consistent with Section 14301.4 of the California Welfare & Institutions Code. DHCS then obtains federal matching funds and pays the enhanced rates to the contracted health plans, CalOptima and Kaiser. The health plans subsequently return payments to the City, including the original IGT contribution, the 20% administrative fee, and 98% of the additional federal reimbursement revenue generated.

DHCS also reconciles the City's initial transfer to actual member months after the service period concludes. If the actual amount needed is lower, DHCS returns the surplus; if higher, the City must remit the difference. To account for any potential increase identified during DHCS's reconciliation process, a 5% contingency is included.

For CY25, DHCS has provided the following projections:

| | | |
|---|---|---|
| IGT Contribution from City | $ | 655,139 |
| 20% Admin Fee | $ | 131,038 |
| **Total IGT Transfer to DHCS for CY25 Program** | **$ 786,177** | |
| Estimated unreimbursed IGT Revenue available for CY25 | $ 1,076,060 | |
| **Where of,** | | |
| The City of Orange receives 98% of the net IGT transaction revenue | $ 1,054,538 | |
| CalOptima and Kaiser retain 2% of the net IGT transaction revenue | $ | 21,521 |
| **Upon reimbursement,** | | |
| CalOptima and Kaiser will return to the City the original IGT contribution, 20% administrative fee, and 98% of IGT revenue available | **$ 1,840,715** | |
| **Estimated net revenue that will be received by the City in Fiscal Year 2026-2027** | **$ 1,054,538** | |

In March 2026, the City submitted a non-binding letter to DHCS confirming interest in program

participation. If the City intends to move forward, two agreements must be executed:

1. Intergovernmental Agreement between the City and DHCS
2. Health Plan-Provider Agreement between the City and CalOptima.

Approximate Timeframe for IGT participation:

March 2026: CalOptima and Kaiser advised DHCS the City will be participating in the IGT program.

August 2026: Agreements will be signed and submitted to DHCS for their review and approval.

October 2026: City will receive an invoice from DHCS representing estimated unreimbursed Medicaid expenses for the twelve months ending December 31, 2025.

After DHCS processes the City's transfer, the enhanced capitation payments are made to CalOptima and Kaiser. Under the separate Health Plan-Provider Agreements, CalOptima and Kaiser are expected to return approximately $1,840,715 to the City, within the 30 days specified, of which $1,054,538 is the City's calculated share of additional Medicaid revenue generated through the IGT.

Additional revenue received through the IGT must be used to cover the portion of emergency ambulance service costs that exceed Medi Cal fee for service rates, as required under the Health Plan-Provider Agreements. Future funding cycles are not guaranteed, so this revenue should be considered one time. - - -

DHCS requires program participants to obtain City Council approval prior to execution of the final agreement. While funding is not guaranteed, previous participation has generated supplementary revenue for the City and staff recommends that the City pursue this additional reimbursement.

## 7. ATTACHMENTS

- Attachment 1 California Welfare and Institutions Code 14301.4 (Medi-Cal Intergovernmental Transfers)
- Attachment 2 Intergovernmental Agreement with California Department of Health Care Services
- Attachment 3 Health Plan-Provider Agreement with CalOptima
- Attachment 4 Health Plan-Provider Agreement with Kaiser Foundation Health Plan Inc.