STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
DF-46 (REV 07/23)

Fiscal Year	Business Unit Number	Department
2025-26	4150	Department of Managed Health Care

Hyperion Budget Request Name	Relevant Program or Subprogram
4150-011-BCP-2025-GB	3870-Health Plan Program

Budget Request Title
Program Workload Resources

Budget Request Summary
The Department of Managed Health Care (DMHC) requests $2,569,000 in 2025-26, $2,339,000 in 2026-27, $2,451,000 in 2027-28, $2,475,000 in 2028-29, and $2,501,000 in 2029-30 and annually thereafter from the Managed Care Fund to modernize information technology (IT) infrastructure, which includes updating equipment, enhancing security measures, improving online access to stakeholder, acquiring services from the California Department of Technology (CDT), maintaining certification software and supporting the costs associated with the legal investigation software.

Additionally, the funding request in this proposal will cover ongoing consultant costs to address increased volume of consumer complaints and mandated caseloads.

Requires Legislation (submit required legislation with the BCP)	Code Section(s) to be Added/Amended/Repealed
☐ Trailer Bill Language ☐ Budget Bill Language ☒ N/A	

Does this BCP contain information technology (IT) components? ☒ Yes ☐ No *If yes, departmental Chief Information Officer must sign.*	Department CIO Ralph Cesena	Date 1/10/2025

For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), the approval date, and the total project cost.

Project No. N/A **Project Approval Document:** N/A

Approval Date: N/A **Total Project Cost:** N/A

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No
Attach comments of affected department, signed and dated by the department director or designee.

Prepared By	Date	Reviewed By	Date
Rita Pearson	1/10/2025	Gita Mehirdel	1/10/2025
Department Director	**Date**	**Agency Secretary**	**Date**
Mary Watanabe	1/10/2025	Kimberly Chen for Kim Johnson	1/10/2025

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☒ ITCU ☐ FSCU ☐ OSAE ☒ Dept. of Technology

Principal Program Budget Analyst	Date submitted to the Legislature
Joseph Donaldson	1/10/2025

A. Problem Statement

The Department of Managed Health Care (DMHC) requests 2,569,000 in 2025-26, $2,339,000 in 2026-27, $2,451,000 in 2027-28, $2,475,000 in 2028-29, and $2,501,000 in 2029-30 and annually thereafter from the Managed Care Fund to modernize information technology (IT) infrastructure, which includes updating equipment, enhancing security measures, improving online access to stakeholder, acquiring services from the California Department of Technology (CDT), maintaining certification software and supporting the costs associated with the legal investigation software.

Additionally, the funding request in this proposal will cover ongoing consultant costs to address increased volume of consumer complaints and mandated caseloads.

Background/History

The DMHC mission is to protect consumers' health care rights and ensure a stable health care delivery system. The DMHC protects the health care rights of more than 29.8 million Californians by regulating approximately 96 percent of state regulated commercial and public health plan enrollment, assisting nearly 2.9 million people in California through a consumer Help Center and preserving the financial stability of the managed health care system. Embedded in this mission is the DMHC's responsibility for ensuring IT systems are sufficient and secure for the DMHC's data, employees and customers.

The number of DMHC licensed health plans and covered lives under the DMHC's jurisdiction has steadily increased over the past five years to 140 licensed health plans and nearly 30 million covered lives. Due to the increase in the number of health plans and enrollees subject to the DMHC's jurisdiction, the DMHC's workload has progressively increased. Additional resources are needed to address the increased volume of consumer complaints, an increased volume of complex and expedited caseloads, higher vendor rates, meet the mandate timeframes for complaint review and to ensure compliance with statutory requirements.

The DMHC has initiated efforts to enhance its IT infrastructure and processes to safeguard systems, technology and data. However, the DMHC faces resource constraints that affect its ability to manage additional processes, software needs and recent rate increases. The lack of sufficient resources can impede the DMHC efforts to ensure the system and processes remain up-to-date and functional, especially as the DMHC works towards modernizing and scaling its infrastructure to meet future demands.

The DMHC Help Center educates consumers about their health care rights, resolves consumer complaints, helps consumers navigate and understand their coverage and assists consumers in getting timely access to appropriate health care services. Through a team of health care analysts, nurses and attorneys, the DMHC Help Center uses a variety of mechanisms to assist consumers. Common complaints include cancellation of coverage, billing issues, quality of service, coverage disputes and access complaints.

In addition to assisting consumers, the Help Center also assist providers with timely and accurate claim payments, handling various complaints, including individual complaints, complaints with multiple claims, emergency service complaints and non-emergency service complaints.

The DMHC's Help Center, Independent Medical Review (IMR) program is also available to consumers if a health plan denies, modifies, or delays a request for a service as not medically necessary or as experimental or investigational. The IMRs have a mandated 45-day timeframe for non-expedited cases, 7-days for expedited medical necessity denials, and 10-days for expedited experimental and investigational denials.

The DMHC's Office of Plan Monitoring (OPM), Division of Plan Surveys (DPS) is required to perform routine medical surveys no less than once every three years, conduct follow-up surveys and review applications for licensure, material modifications and amendments of DMHC licensed health plans. The DPS has experienced an increase in workload due to licensing more health plans and the complexity of filings submitted by currently licensed health plans.

The DMHC's OPM, Division of Provider Networks (DPN) is responsible for reviewing health plan provider networks to ensure they meet the network adequacy standards, including standards related to the overall availability of providers, the geographic accessibility of providers and the capacity of the providers to deliver timely care. The DPS and DPN are experiencing challenges due to the increased rates charged by clinical consultants and vendors to assist the DMHC with conducting medical surveys and evaluating network adequacy.

The DMHC's Office of Enforcement (OE) handles the litigation needs for the DMHC and investigates alleged violations under the DMHC's administrative powers to ensure compliance with the managed health care laws. The enforcement actions include issuing cease and desist orders, imposing administrative penalties (fines), freezing enrollment and requiring corrective actions. When necessary, the DMHC may pursue legal action to ensure health plans follow the law. As part of OE's enforcement actions, eDiscovery software is utilized by OE's legal professionals to process, review, tag and produce electronic documents as part of a lawsuit or investigation.

This proposal requests the necessary resources to modernize IT infrastructure, maintain certification software, support the costs associated with the legal investigation software, cover higher consulting rates to address increased volume of consumer complaints, IMRs and be in compliance with statutorily mandated timeframes.

B. Justification

The DMHC has determined the following resources are necessary to enable the DMHC to address the increased workload, recent consultant rate increases and implement required software updates.

The following section details the specific resources requested by program.

Office of Technology and Innovation (OTI)

Network Hardware

The DMHC must be able to support wired connectivity to all DMHC office space, as well as provide Wi-Fi capability throughout the workspaces. As network device models, switches and access points age, they eventually become unsupported by vendors. Functionality updates, bug fixes and security updates are no longer available after a certain age. The majority of the DMHC network gear is aging out and will no longer be supported for break/fix issues or security updates, exposing the DMHC to potential vulnerabilities.

The DMHC estimates one-time 2025-26 resources of $362,000 to replace existing network equipment and ongoing resources of approximately $23,000 in 2026-27, $25,000 in 2027-28, $56,000 in 2028-29, $59,000 in 2029-30 and annually thereafter for the ongoing support, maintenance and licensing costs.

Virtual Server Infrastructure

The DMHC also employs on-site physical servers to install most of its software applications. As such, the expansion of the physical servers is required to meet the scale of virtual application and the growth of the DMHC. The current licensing rates have increased by 500% in recent years. To avoid the resource-intensive expansion of physical servers and associated licensing costs, the DMHC needs to transition to a virtual server infrastructure. Moving servers from on-premises to the cloud also accelerates scaling down as servers or applications sunset and provides more security, visibility and compliance with state policies.

The DMHC estimates resources of $102,000 in 2025-26, $203,000 in 2026-27, $305,000 in 2027-28, $320,000 in 2028-29, $336,000 in 2029-30 and annually thereafter to transition from a physical server environment to a virtual server infrastructure.

CDT Rate Increase

The DMHC utilizes the CDT for mandated services such as internet connectivity, audit and oversight and email services to conduct its business operations. Beginning July 1, 2024, the DMHC anticipates an increase in the CDT fees by approximately $20,000 annually. Furthermore, recent software rate increases have left the DMHC funding levels insufficient to meet its operational requirements effectively.

Virtual Private Network (VPN) Security

The DMHC is requesting additional resources to fund the ongoing costs associated with VPN security for handling confidential document software. This investment is critical to ensuring the secure management of sensitive information.

The DMHC estimates the annual cost to be approximately $96,000 in 2025-26, $102,000 in 2026-27, $107,000 in 2027-28, $112,000 in 2028-29, $118,000 in 2029-30 and annually thereafter to support the costs associated with VPN and licensing costs.

The DMHC estimates the total OTI costs to be $580,000 in 2025-26, $349,000 in 2026-27, $459,000 in 2027-28, $511,000 in 2028-29, $537,000 in 2029-30 and annually thereafter.

Help Center (HC)

Independent Medical Review Consultant Funding

The DMHC continues to experience increases in IMRs. The HC is requesting consulting funding of $601,000 in 2025-26 and annually thereafter to address the increased workload volume and higher consulting rates for IMRs.

Independent Dispute Resolution Process (IDRP) Portal Support and Maintenance

The HC is also requesting limited term funding for annual technical support and maintenance of the third-party vendor's portal for the IDRP. This portal enables the DMHC to process payment disputes between non-contracted providers and health plans for non-emergency services in accordance with Assembly Bill (AB) 72 (Chapter 492, Statutes of 2016).

The HC is requesting $25,000 in 2025-26, $26,000 in 2026-27 and $28,000 in 2027-28 only. Services beyond 2027-28 will be addressed as part of the DMHC's enterprise modernization efforts.

Medical Expert Consultant Funding

The HC Legal Affairs Branch (LAB) workload has progressively increased over the past few years, resulting in an increase in requests for medical expert opinions. In 2021, LAB submitted 148 requests for expert opinions to the review organization. In 2022, LAB submitted 166 requests. In 2023, LAB submitted 216 requests. In 2024, based on current statistical trends, LAB anticipates an increase of 55% to 336 requests and continuing annually thereafter. Having additional funds will allow LAB to fully and fairly evaluate consumer complaints, as required by the Knox-Keene Act, to reach appropriate compliance determinations based on expert medical opinions.

The HC LAB is requesting $47,000 in 2025-26 and annually thereafter to fund additional medical expert reviews.

Translation Services

Additionally, due to an increase in number of complaints from consumers whose primary language is not English, the volume of written translation requests for consumer complaints has increased, along with increasing consulting service costs. Written translation and desktop publishing services are necessary for the DMHC to provide enrollees with limited English proficiency (LEP) access to information and services about the health care delivery system and their health care rights. Additionally, these services enhance the ability to publicize the services

DMHC provides to LEP consumers and support requests for public facing LEP documents on the DMHC website.

The HC is requesting $75,000 in 2025-26 and annually thereafter to fund the additional written translation and desktop publishing services.

The DMHC estimates the total HC costs to be $748,000 in 2025-26, $749,000 in 2026-27, $751,000 in 2027-28, $723,000 in 2028-29 and annually thereafter.

Office of Plan Monitoring (OPM)

Statistical Consultant Funding

The DPN has received ongoing consultant funding of $347,500 annually beginning in 2024-25 to provide statistical analysis of provider network data and develop formulas. The DPN is requesting an additional $64,000 annually to cover a 15.5% increase in consulting rates, which have not been updated since 2021 and no longer reflect current market conditions.

Clinical Consultant Funding

The DPS experienced rate increases for the clinical consultant services in the Fall of 2022 and anticipates further increases by 2025-26. To manage these expected increases, the DPS is requesting $1,055,000 annually starting in 2025-26. This funding will address the anticipated 20% overall rate increase and enable DPS to contract with vendors for mandated health plan medical surveys.

The impact of not approving this request will result in delays to the statutorily required workload and could further result in a significant impact to the DMHC's ability to accomplish program objectives and evaluate health plans for compliance with network adequacy requirements.

The DMHC estimates the OPM's cost to be $1,119,000 in 2025-26 and annually thereafter.

Office of Enforcement (OE)

eDiscovery Solution

The current state and federal laws require the preservation of Electronically Stored Information (ESI) to prevent spoliation of evidence. As part of OE's enforcement actions, eDiscovery software is utilized by OE's legal professionals within the DMHC's eDiscovery solution to process, review, tag and produce electronic documents as part of a lawsuit or investigation.

OE received $183,000 annually for eDiscovery software in the 2023-24, Senate Bill (SB) 858 (Chapter 985, Statutes of 2022) Budget Change Proposal (BCP). This annual cost was calculated based on 87 OE users at a rate of $2,100 per user each year. Subsequently, the software company offering eDiscovery software, changed its pricing model, eliminating a per-seat user fee and moving to a data tier pricing structure. This change resulted in a significant increase in the annual cost.

With the current resources, the OE is not able to procure a sufficient data tier for eDiscovery use. This will significantly impact the productivity of OE legal staff and attorneys, particularly in handling large volumes of documents during the discovery process. Staff have to limit their usage of the software tools and spend more time manually reviewing, searching and tagging content.

The DMHC estimates the OE's cost to be $122,000 beginning in 2025-26 and annually thereafter to remedy the funding shortfall.

C. Departmentwide and Statewide Considerations

This proposal supports the DMHC's mission to protect consumers' health care rights and ensure a stable health care delivery system. Without the additional resources, the additional processes and software needed will not be addressed resulting in the potential risk of non-compliance with the Knox-Keene-Act.

This proposal addresses several of the California Health and Human Services Agency's priorities and principles. Principles include delivering on outcomes by ensuring that the DMHC programs and services are supported to yield concrete and meaningful results and cultivating a culture of innovation by pursuing innovation and improving efforts to better support and improve the lives of all Californians.

D. Outcomes and Accountability

This proposal requests the necessary resources to modernize IT infrastructure, which includes updating equipment, enhancing security measures, improving online access to stakeholder, acquiring services from the CDT, maintaining certification software and supporting the costs associated with the legal investigation software.

Additionally, the resources requested in this proposal will fund ongoing consultant costs to address the increased volume of consumer complaints and ensure compliance with statutory deadlines. This will also enable the DMHC to regulate health plans effectively, efficiently and hold health plans accountable for compliance with state laws.

E. Implementation Plan

The DMHC will begin the process in late 2024-25 to execute the contracts once authorized.

F. Supplemental Information

This request will be funded through annual assessments of the health plans regulated by the DMHC. The ongoing fiscal impact of this request to full-service health plans is approximately $0.05 per enrollee per year.

Attachment A: BCP Fiscal Detail Sheet

BCP Fiscal Detail Sheet

BCP Title: Program Workload Resources

BR Name: 4150-011-BCP-2025-GB

Budget Request Summary

Operating Expenses and Equipment

Operating Expenses and Equipment	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
5340 - Consulting and Professional Services - External	0	1,839	1,840	1,842	1,814	1,814
5340 - Consulting and Professional Services - Interdepartmental	0	39	35	37	37	38
5344 - Consolidated Data Centers	0	20	21	22	23	24
5346 - Information Technology	0	315	443	550	601	625
5368 - Non-Capital Asset Purchases - Equipment	0	356	0	0	0	0
Total Operating Expenses and Equipment	**$0**	**$2,569**	**$2,339**	**$2,451**	**$2,475**	**$2,501**

Total Budget Request

Total Budget Request	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
Total Budget Request	**$0**	**$2,569**	**$2,339**	**$2,451**	**$2,475**	**$2,501**

Fund Summary

Fund Source

Fund Source	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
State Operations - 0933 - Managed Care Fund	0	2,569	2,339	2,451	2,475	2,501
Total State Operations Expenditures	**$0**	**$2,569**	**$2,339**	**$2,451**	**$2,475**	**$2,501**
Total All Funds	**$0**	**$2,569**	**$2,339**	**$2,451**	**$2,475**	**$2,501**

Program Summary

Program Funding

Program Funding	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
3870 - Health Plan Program	0	2,569	2,339	2,451	2,475	2,501
Total All Programs	**$0**	**$2,569**	**$2,339**	**$2,451**	**$2,475**	**$2,501**