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

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

Hyperion Budget Request Name	Relevant Program or Subprogram
4150-019-BCP-2025-GB	3870-Health Plan Program

Budget Request Title
Health Care Coverage: Biomedical Industry (AB 2072), Multiple Employer Welfare Arrangements (AB 2434)

Budget Request Summary
The Department of Managed Health Care (DMHC) requests limited-term expenditure authority of $508,000 in 2025-26 from the Managed Care Fund to address the requirements of AB 2072 (Chapter 374, Statutes of 2024) and AB 2434 (Chapter 398, Statutes of 2024).

Requires Legislation (submit required legislation with the BCP)	Code Section(s) to be Added/Amended/Repealed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	Date
	N/A	N/A

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 limited-term expenditure authority of $508,000 in 2025-26 only from the Managed Care Fund to address the requirements of AB 2072 (Chapter 374, Statutes of 2024) and AB 2434 (Chapter 398, Statutes of 2024).

This proposal requests limited-term consulting funding in 2025-26 to conduct an impact analysis of multiple employer welfare arrangements (MEWAs) on the small group market.

Background/History

The DMHC protects consumers' health care rights and ensures a stable health care delivery system. As part of this mission, the DMHC licenses and regulates health plans under the Knox-Keene Health Care Service Plan Act of 1975, as amended (Knox-Keene Act). Embedded in the mission is the task of evaluating and promoting health care service plan (health plan) regulatory compliance and verifying enrollees have consistent access to timely and medically necessary health care services. The DMHC regulates the majority of health care coverage in California including 96 percent of state regulated commercial and government markets. Health plans licensed by the DMHC provide coverage to nearly 30 million members.

In 2021, SB 718 (Chapter 736, Statutes of 2021) and SB 255 (Chapter 725, Statutes of 2021) were enacted, allowing biomedical MEWAs and film and television production MEWAs to offer large group coverage, provided they meet specific requirements. SB 718 and SB 255 created exceptions to the general rule that small employers and individuals cannot purchase large group coverage through an Association Health Plans (AHP) or MEWA.

Under existing law, to qualify as a MEWA that can offer large group coverage, the MEWA must comply with a variety of requirements. For example, the MEWA must be headquartered in California, must have been established prior to March 23, 2010, and must be an organization whose member employers have a commonality of interests beyond simply the provision of health care.

Additionally, to ensure consumer protections, the MEWA must offer employees a level of coverage with an actuarial value equal to or greater than the platinum level of coverage pursuant to the California Health Benefit Exchange. The MEWA may not charge employees or dependents a premium based on their health status, nor may it deny coverage based on a preexisting condition. To qualify, the MEWA must also have filed an application for registration with the DMHC on or before June 1, 2022.

AB 2072 did not make any substantive changes to the requirements necessary for an AHP or MEWA with small employers in the biomedical industry to offer large group health care coverage. Rather, the bill extended the sunset date originally included in SB 718 and SB 255 from January 1, 2026, to January 1, 2030.

AB 2434 allowed a new category of MEWA to offer large group coverage by adding Health and Safety Code (HSC) section 1357.505. This section authorizes an association with small employer members in the engineering, surveying, or design industry to purchase large group health care coverage through a MEWA if certain conditions are met. The requirements in the bill are like the requirements for biomedical or film and television production MEWAs in HSC section 1357.503.

AB 2434 requires the association and MEWA to file their registration with the DMHC on or before June 1, 2025, and must provide annual compliance filings. A health plan cannot offer large group coverage to any association or MEWA unless it has registered with the DMHC and complies with the requirements set forth by AB 2434. Like AB 2072, the provisions of AB 2434 are set to expire and no longer operative after January 1, 2030.

AB 2072 and AB 2434 requires the DMHC to do the following:

- Provide the health policy committee of the legislature with the most recent MEWA filings on or before June 30, 2026.
- Conduct an analysis of the impacts of MEWAs on the small employer market and post a summary of its analysis on the DMHC website by July 1, 2026.
- Conduct an analysis of the impact of health plans and health insurers offering large group contracts and policies to small employers through MEWAs.
- Post a summary of this analysis on the DMHC website by July 1, 2026.

B. Justification

The DMHC received $301,000 in limited-term expenditure authority (equivalent to 1.5 positions) in 2023-24 through 2026-27, as part of the 2021-22, SB 718 Budget Change Proposal (BCP). This funding was allocated to receive and review the MEWA documents to ensure compliance with SB 718 requirements. Additionally, the DMHC received 1.0 position and $229,000 annually beginning in 2023-24 as part of the 2021-22, SB 255 BCP to conduct the annual review of MEWA documents for compliance with SB 255.

The DMHC has successfully established a MEWA registration system and process for receiving and reviewing MEWA documents for compliance. However, the DMHC may need to issue another All-Plan Letter in response to the new MEWA statutory changes. This work will be supported by existing resources.

The DMHC has determined that the following limited-term resources are necessary to implement the additional requirements of AB 2072 and AB 2434.

Office of Financial Review

The DMHC Office of Financial Review (OFR) works to ensure the stability in California's health care delivery system by actively monitoring the financial status of health plans and provider groups to ensure they can meet their financial obligations to consumers and purchasers.

Following the passage of AB 2072 and AB 2434, OFR will need to conduct an impact analysis of MEWA on the small group market.

The OFR is requesting consultant funding of $508,000 in 2025-26 only. This cost is based on consultant funding of $500,000 and anticipated Department of General Services (DGS) service fees of $8,000.

The consultant funding amount is based on OFR's experience with similar analyses. The use of consultant funding in lieu of civil service classifications is requested due to the immediate specialized expertise needed to conduct the analysis required by AB 2072 and AB 2434. This approach is consistent with AB 2072, which authorizes the DMHC to contract with expert consultants to support the required analysis.

C. Departmentwide and Statewide Considerations

This proposal supports the California Health and Human Services Agency's (CalHHS) strategic priority to Build a Healthy California for All by monitoring for and addressing barriers to care in health plans' delivery systems that may lead to an enrollee's harm.

This proposal also supports the CalHHS goal of addressing the needs of the health care consumers by dedicating resources to strengthen and support efforts to assist all Californians.

D. Outcomes and Accountability

Approval of this proposal will provide the DMHC with the necessary resources to implement the provisions of AB 2072 and AB 2434.

E. Implementation Plan

The DMHC will begin implementing the requirements of AB 2072 and AB 2434 on July 1, 2025.

F. Supplemental Information

This request will be funded through annual assessment of the health plans that are regulated by the DMHC. The fiscal impact of this request to full-service health plans would be approximately $0.01 per enrollee in 2025-26.

Attachment A: BCP Fiscal Detail Sheet

BCP Fiscal Detail Sheet

BCP Title: Health Care Coverage: Biomedical Industry (AB 2072), Multiple Employer Welfare Arrangements (AB 2434)

BR Name: 4150-019-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 - Interdepartmental	0	8	0	0	0	0
5340 - Consulting and Professional Services - External	0	500	0	0	0	0
Total Operating Expenses and Equipment	**$0**	**$508**	**$0**	**$0**	**$0**	**$0**

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**	**$508**	**$0**	**$0**	**$0**	**$0**

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	508	0	0	0	0
Total State Operations Expenditures	**$0**	**$508**	**$0**	**$0**	**$0**	**$0**
Total All Funds	**$0**	**$508**	**$0**	**$0**	**$0**	**$0**

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	508	0	0	0	0
Total All Programs	**$0**	**$508**	**$0**	**$0**	**$0**	**$0**