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
4150-023-BCP-2025-GB	3870-Health Plan Program

Budget Request Title
Risk-Based or Global Risk Provider Arrangement Pilot Extension (AB 2063)

Budget Request Summary
The Department of Managed Health Care (DMHC) requests limited-term expenditure authority of $178,000 in 2027-28 and $178,000 in 2028-29 from the Managed Care Fund to implement the requirements of AB 2063 (Chapter 818, 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Requires Legislation (submit required legislation with the BCP)	Code Section(s) to be Added/Amended/Repealed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 N/A	Date 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 $178,000 in 2027-28 and $178,000 in 2028-29 from the Managed Care Fund to implement the requirements of AB 2063 (Chapter 818, Statutes of 2024).

This proposal requests specialized consulting funding for clinical consultants to review clinical patient outcomes reported by pilot participants in accordance with the requirements of AB 2063.

Background/History

The DMHC licenses and regulates health plans under the provisions of the under the Knox-Keene Health Care Service Plan Act of 1975, as amended (Knox-Keene Act). As part of the licensing process, the DMHC reviews all aspects of the health plan's operations, including benefits and coverage template contracts with doctors and hospitals, provider networks and complaint and grievance systems. The DMHC also reviews health plan financial statements and filings and analyzes health plan reserves, financial management systems and administrative arrangements.

In addition to regulating health plans, the DMHC monitors the financial solvency of Risk Bearing Organizations (RBOs) but does not license them. An RBO is a provider group that, in its contracts with a health plan, pays claims and assumes financial risk for the cost of professional health care services (physician, ancillary, and/or pharmacy services) by accepting a fixed monthly payment for each enrollee assigned to the RBO. The DMHC monitors the financial stability of RBOs by analyzing monthly, quarterly and annual financial filings, conducting financial examinations, reviewing claims payment practices and developing and monitoring corrective action plans.

A Voluntary Employees' Beneficiary Association (VEBA) is a tax-advantaged entity for funding certain employee benefits, including health care coverage. Employees can participate in a VEBA based on their common employment-related bond, such as a common employer, coverage under one or more collective bargaining agreements, or membership in a labor union. A VEBA may be associated with an employee welfare benefit plan under the federal Employee Retirement Income Security Act of 1974 (ERISA).

In 2020, AB 1124 (Chapter 266, Statutes of 2020) authorized two pilot programs, one in Northern California and one in Southern California, under which one VEBA or one trust fund in either region would be exempt from licensure under the Knox-Keene Act, provided the VEBAs partnered with an RBO and met certain eligibility criteria. The purpose of the pilot programs was to demonstrate that these arrangements can provide high quality care at a lower cost compared to a fee-for-service reimbursement model.

In late 2021, CalVEBA was authorized by the DMHC to operate in Southern California, effective January 1, 2022. Because of delays in launching the pilot program, CalVEBA has not had sufficient time to collect and report information to the DMHC regarding cost savings, clinical patient outcomes and enrollee satisfaction. As a result, there has not been sufficient time nor information for the DMHC to evaluate and report on the impact of this single pilot program.

AB 2063 grants a two-year extension for the pilot program in Southern California, allowing it to operate until December 31, 2027. AB 2063 also extends the deadline for the DMHC to submit a report on the pilot program effectiveness, moving it from January 1, 2027 to January 1, 2029.

To address the requirements of AB 2063, the DMHC will need to:

- Provide review of clinical patient outcomes reported by pilot participants.
- Report the pilot program findings to the Legislature by January 1, 2029. The report must include the information provided by the VEBA or trust fund (cost savings, clinical patient outcomes and enrollee satisfaction), as well as information on grievances and appeals and independent medical reviews. The DMHC may authorize a public or private third party to prepare the report.

Additionally, AB 2063 amended Health and Safety Code (HSC) Section 1343.3(h) to remain in effect until January 1, 2030, requiring the pilot program participants to reimburse the DMHC for reasonable regulatory costs up to $500,000 for all the following:

- Commissioning the report to the Legislature by January 1, 2029.
- Developing an application process for the pilot program
- Monitoring compliance with the requirements in HSC section 1343.3

B. Justification

AB 2063 extends the period of time authorized for the pilot program to operate from December 31, 2025, to December 31, 2027. This bill also extends the deadline for the DMHC to report the findings to the Legislature from January 1, 2027, to January 1, 2029. Extending the timeline is critical not only to prevent unnecessary disruptions in care, but to also give the pilot program time to collect and submit the necessary data to the DMHC for further analysis.

This proposal provides the limited-term resources necessary to enable the DMHC to address the additional workload in 2027-28 and 2028-29 resulting from AB 2063 implementation.

The DMHC is requesting the following resources:

Office of Financial Review (OFR)

The DMHC's Office of Financial Review (OFR) works to ensure the financial stability of 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. The Division of Financial Oversight, within OFR, monitors and evaluates the financial viability of health plans to ensure continued access to health care services. This is achieved by reviewing financial statements, analyzing financial arrangements and other information submitted as part of the licensing, material modification and amendment process, and performing routine and non-routine financial examinations.

The OFR received limited-term resources through 2026-27 as part of the AB 1124 BCP in 2021-22. Additional clinical consulting resources are needed to address the extended timeline for the pilot program and to complete the final report to the Legislature in accordance with AB 2063.

The OFR is requesting funding of $178,000 in 2027-28 and $178,000 in 2028-29 for clinical consulting services to provide review of clinical patient outcomes reported by the pilot participant. This cost is based on consultant funding of $175,000 each year in 2027-28 and 2028-29 and anticipated Department of General Services (DGS) service fees of $3,000 each year in 2027-28 and 2028-29.

The consultant funding amounts are based on OFR experience with similar contracts and an anticipated $400.00 hourly rate. The work performed by the clinical consultant requires the use of highly specialized expertise that is not available through the civil service system. Additionally, utilizing a consultant contract will provide flexibility to access expertise in various clinical areas that is not available when limited to a specific civil service classification.

C. Departmentwide and Statewide Considerations

DMHC's mission is to protect consumers' health care rights and ensure a stable health care delivery system. As part of this mission, the DMHC licenses and 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.

Extending the pilot program timeline to operate until December 31, 2027, will enable the DMHC to gather the necessary data and information to assess whether the pilot program effectively controls costs and improves health care outcomes and service quality.

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 DMHC's commitment to ensuring parity in the coverage of services to Californians.

D. Outcomes and Accountability

Approval of this proposal will provide the DMHC with the limited-term resources necessary to implement the requirements of AB 2063.

E. Implementation Plan

The DMHC will begin implementing the requirements of AB 2063 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 is estimated at less than $0.01 per enrollee per year during 2027-28 and 2028-29 only.

Attachment A: BCP Fiscal Detail Sheet

BCP Fiscal Detail Sheet

BCP Title: Risk-Based or Global Risk Provider Arrangement Pilot Extension (AB 2063)

BR Name: 4150-023-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	0	0	175	175	0
5340 - Consulting and Professional Services - Interdepartmental	0	0	0	3	3	0
Total Operating Expenses and Equipment	**$0**	**$0**	**$0**	**$178**	**$178**	**$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**	**$0**	**$0**	**$178**	**$178**	**$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	0	0	178	178	0
Total State Operations Expenditures	**$0**	**$0**	**$0**	**$178**	**$178**	**$0**
Total All Funds	**$0**	**$0**	**$0**	**$178**	**$178**	**$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	0	0	178	178	0
Total All Programs	**$0**	**$0**	**$0**	**$178**	**$178**	**$0**