

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

Fiscal Year 2025 - 2026	Business Unit Number 4140, 4150	Departments Department of Managed Health Care (DMHC) and Department of Health Care Access and Information (HCAI)
Hyperion Budget Request Name 4140-096-BCP-2025-MR, 4150-058-BCP-2025-MR		Relevant Program or Subprogram 3860- Administration/3865- Health Care Payments Data Program/3870- Health Plan Program

Budget Request Title

Pharmacy Benefit Manager Licensure and Data Requirements

Budget Request Summary

The Department of Managed Health Care (DMHC) and the Department of Health Care Access and Information (HCAI) requests funds to support enhanced oversight of pharmacy benefit managers (PBMs) to improve transparency and accountability in the prescription drug market. This initiative will replace the existing registration requirement for Pharmacy Benefit Managers (PBMs) with a licensure mandate for all PBMs operating in California that contract with either a DMHC licensed health plan or California Department of Insurance (CDI) licensed insurer. This initiative will also require the PBMs to report critical data to gain a better understanding improve affordability of drugs for Californians.

DMHC requests \$2,279,000 Pharmacy Benefit Manager in 2025-26 and 6 permanent positions. HCAI requests \$6,209,000 Pharmacy Benefit Manager Fund in 2025-26 and 6 permanent positions. HCAI also requests provisional language authorizing expenditure of funds upon the approval of the post-implementation evaluation report by the Department of Technology.

Requires Legislation (submit required legislation with the BCP) <input checked="" type="checkbox"/> Trailer Bill Language <input checked="" type="checkbox"/> Budget Bill Language <input type="checkbox"/> N/A	Code Section(s) to be Added/Amended/Repealed Health and Safety Code (HSC) 1367.22, 1385.001-1385.0029, 1356.3, 127672.9, 127673.05, 127673.7, and 127674.1
Does this BCP contain information technology (IT) components? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO Michael Valle Date 5/14/2025

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
infrastructure

Project Approval Document: N/A – modification to existing data

Approval Date: N/A

Total Project Cost: N/A

If proposal affects another department, does other department concur with proposal? ☒ Yes ☐ No

~~No Attach comments of affected department, signed and dated by the department director or designee.~~

Prepared By Michael Valle and Rita Pearson	Date 5/14/2025	Reviewed By Scott Christman and Gita Mehirdel	Date 5/14/2025
Department Director Elizabeth Landsberg and Mary Watanabe	Date 5/14/2025	Agency Secretary Kim Johnson	Date 5/14/2025
Department of Finance Use Only			
Additional Review: <input type="checkbox"/> Capital Outlay <input checked="" type="checkbox"/> ITCU <input type="checkbox"/> FSCU <input type="checkbox"/> OSAE <input type="checkbox"/> Dept. of Technology			
Principal Program Budget Analyst Joseph Donaldson		Date submitted to the Legislature 5/14/2025	

A. Problem Statement

PBMs serve as intermediaries between health plans, pharmacies, and pharmaceutical manufacturers. PBMs play a central role in the pricing and reimbursement of prescription drugs by influencing drug formularies, reimbursement rates, and patient access to medications, giving them significant power over the prescription drug supply chain. Their central role in the complex prescription drug market makes it difficult to discern the true cost of prescription drugs and where profit and administrative costs are being retained along the supply chain.

PBMs' negative impacts on prescription drug affordability and competition are widespread and well-documented. Just in the last year, the Federal Trade Commission, U.S. Congress, New York Times, and other entities and outlets have released publications detailing the anticompetitive practices of PBMs.

Market transparency creates the conditions for competitive markets and lower prices. Currently, due to the lack of transparency into the prescription drug market, manufacturers, PBMs, and health plans can point the blame of high prices at other entities than themselves.

California is already behind other states in collecting and analyzing information about PBM's role in the prescription drug marketplace. Currently, 29 other states require some form of PBM reporting to the state government. Despite existing laws and regulations, prescription drugs prices remain excessively high for both consumers and purchasers. The actual cost of prescription drugs is often obscured. The PBMs negotiate discounts and rebates from manufacturers but they are not currently required to disclose rebate amounts or rebate structures publicly. Additionally, on the pharmacy side, PBMs negotiate reimbursement to cover the cost of ingredient and dispensing fee for the drug. However, PBMs often apply administrative and post-sale remuneration fees, making it difficult to tell what the PBM is actually paying for the drug. The amount of data regarding prescription drug costs and the delivery system that is provided to the state agencies is currently very limited.

California needs greater transparency in drug pricing to address the high cost of prescription drugs. To address this issue, the DMHC proposes replacing the current registration requirement for PBMs with a licensure mandate for all PBMs that contract with either a licensed DMHC health plan or a CDI licensed insurer. This initiative will also

require PBMs to report critical data to the DMHC and HCAI to obtain a better understanding of their impact on prescription drug costs.

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). 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 enrollees.

DMHC will enforce the requirement for PBMs to report information to HCAI directly, rather than through health plans or insurers, using the existing Healthcare Payments Data (HPD) Program, California's All Payer Claims Database. HCAI will analyze the prescription drug data, produce an annual report on cost drivers of drug costs including PBM's impact on drug costs, and provide recommendations for policymakers.

This proposal will:

- Sunset the existing PBM registration requirement and replace it with licensure of PBMs.
- Require PBMs to obtain a DMHC license. This process will allow the DMHC to enforce requirements for PBMs to report information and data to the DMHC and HCAI directly, rather than through health plans or insurers.
- Model PBM licensure after the health plan licensure process, including enforcement provisions.
- Require information collected through license applications to include:
 - Affirmation that PBMs will report data to HCAI.
 - Operational information such as organizational structure, list of entities PBMs contract with and services provided.
 - Financial information, including quarterly and annual audited financial statements, pharmacy claims process and PBM revenue and expenses.

Through the PBM licensure and associated data collection, California with its vast market size will join other states in increasing transparency throughout the marketplace to support informed policy decisions.

DMHC requests expenditure authority of \$2,279,000 in and 6 permanent positions 2025-26 from the Pharmacy Benefit Manager Fund to replace the existing registration requirement for PBMs with a licensure mandate for all PBMs operating in California that contract with either a DMHC licensed health plan or a CDI licensed insurer. This initiative will also require the PBMs to report critical data to gain a better understanding of their impact on prescription drug costs.

This request includes Information Technology (IT) initial consulting funding of \$425,000 in 2025-26 to begin modifying DMHC's existing systems to support the PBM licensure requirements.

The following table notes the requested equivalent positions by program and classification:

Table 1 – DMHC EQUIVALENT POSITIONS REQUESTED

Program / Classification	Number of Equivalent Positions 2025-26
Office of Plan Licensing (OPL)	
Attorney III	3.0
Staff Services Manager III	1.0
Office of Financial Review (OFR)	
Corporation Examiner IV, Specialist	1.0
Office of Legal Services (OLS)	
Attorney III	1.0
Total Equivalent Positions	6.0

HCAI requests \$6,209,000 to support initial work to collect PBM price and payment data by the HPD System, and production of drug pricing and payment reports to analyze significant pharmacy cost drivers and inform policymakers. Funds will be used for personal services, and for contracts for information technology and consulting and professional services. HCAI requests position authority for 6 staff resources.

TABLE 2 - HCAI POSITIONS REQUESTED

Program / Classification	Number of Positions 2025-26
Office of Information Services	
Health Program Specialist II	1.0
Information Technology Specialist I	3.0
Attorney III	1.0
Attorney IV	1.0
Total Positions	6.0

TABLE 3 - HCAI FUNDING REQUESTED

Category	Annual Funding
Personal Services	\$1,124,000
Staff Operating Expenses and Equipment	\$473,000
Total Personal Services	\$1,597,000
Consulting and Professional Services - External	\$800,000
Information Technology	\$3,812,000
Total Annual HPD PBM Cost	\$6,209,000

B. Background and History

Under existing law, health plans that cover prescription drugs must provide all medically necessary prescription drugs and adhere to consumer protections regarding how they manage drug formularies. These formularies are used to categorize drugs as preferred or non-preferred and set cost-sharing requirements.

In 2017, SB 17 (Chapter 603, Statutes of 2017) was enacted into law, to address the high prices for prescription drugs by creating greater transparency in drug pricing. This bill required health plans and insurers that file rate information with the DMHC or the CDI to annually report specific information related to the costs of covered prescription drugs. The DMHC currently reviews the total volume of prescription drugs prescribed by health plans and the total cost paid by health plans for these drugs, on both an aggregate spending level and a per member per month basis. The DMHC also analyzes how the 25 most frequently prescribed drugs, the 25 most costly drugs and the 25 drugs with the highest year-over-year increase in total annual spending impact premiums.

In 2018, AB 315 (Chapter 905, Statutes 2018) established a new article within the Knox-Keene-Act, outlining contractual requirements that must exist if a health plan uses a PBM. The purpose of this bill was to gather information on PBMs and increase transparency. PBMs are defined in this article as a person, business, or other entity that, pursuant to a contract with a health plan, manages the prescription drug coverage provided by the health care service plan, including, but not limited to, the processing and payment of claims for prescription drugs, the performance of drug utilization review, the processing of drug prior authorization requests, the adjudication of appeals or grievances related to prescription drug coverage, contracting with network pharmacies and controlling the cost of covered prescription drugs.

AB 315 also required PBMs to register with the DMHC and provide specified aggregate information related to rebates, wholesale costs, payments fees to pharmacies, upon request from health plans, insurers and other third parties that contract with PBMs. AB 315 also placed requirements on pharmacies, including informing a customer whether the retail price would be lower than the enrollee's cost-sharing.

Additionally, AB 315 required the DMHC to convene a Task Force on PBM Reporting by July 1, 2019, to determine what information related to pharmaceutical costs should be reported by health plans or their contracted PBMs. The DMHC convened the PBM Task Force and submitted a report to the Legislature in early 2020. The Task Force's report

recommended PBMs report data to the DMHC related to the services they provide for commercial health plans to increase transparency and to understand how PBMs impact the cost of prescription drugs.

Established by Assembly 80 (2020), the HPD is California's All Payer Claims Database or APCD. The HPD is a research database comprised of California healthcare data. The information from the HPD System is intended to support greater health care cost transparency and will be used to inform policy decisions regarding the provision of quality health care and to reduce health care costs and disparities. It is also intended for the information to be used to develop innovative approaches, services, and programs that may have the potential to deliver health care that is both cost effective and responsive to the needs of all Californians.

HCAI has extensive experience in collecting and reporting prescription drug data. The HPD is currently collecting healthcare plans from health plans and insurers, including pharmacy claims, and will begin collecting non-claims payment information possessed by plans, including pharmacy rebates, within the next year. HCAI also has a role in administering data collection pursuant to Senate Bill 17 (2017) and collecting pricing and other information from prescription drug manufacturers. This includes wholesale acquisition costs for existing drugs with certain price increases and additional information for new drugs introduced to market over a specified amount.

DMHC proposes replacing the current registration requirement for PBMs with a licensure mandate for all PBMs operating in California. That licensing requirement will include the requirement for PBMs to submit data to HCAI.

PBMs would provide HCAI information about the pharmacy benefits they manage, including:

- Various aspects of drug pricing, including wholesale acquisition costs, average wholesale prices, and national average drug acquisition costs;
- Prescription counts and member counts;
- The fees paid to PBMs by manufacturers, plans, and pharmacies;
- Discounts or rebates to or from PBMs;
- Information grouped by national drug code, therapeutic category, manufacturer, and generic product identifier; and
- Information grouped by pharmacies owned and not owned by the pharmacy benefit manager.

This data is important in meeting the State's goals of lowering health care costs and HPD's mission of supporting transparency and research in health care. HCAI, researchers, and the public will use this information to evaluate the efficacy of PBM policy reforms, reinforce newly established licensing requirements from the DMHC, and comprehensively monitor the prescription drug system to support informed policy decisions. Such data can support the study of:

- Drug pricing and costs for consumers and plans;

- The impact of rebates and PBM profit structures on plan premiums and drug costs;
- How consolidation and vertical integration in the prescription drug marketplace impacts pricing, patient access to medication, pharmacy networks, and overall costs;
- Prescribing patterns and consumer access to lower cost biosimilars and generic drugs;
- Whether the State's reform efforts are successfully curbing claw backs, spread pricing, patient steering, and other potentially problematic PBM practices
- Whether better pharmaceutical access and improved formularies leads to improved health outcomes over time; and
- Variation in the above issues by payer type, PBM, and region to identify areas where additional policy changes may be needed to lower costs and protect consumers.

C. Justification

The PBM licensure and data collected under this proposal will allow the State to provide effective transparency and oversight by “looking under the hood” of PBMs’ business dealings and significant components of prescription drug pricing. While three large PBMs provide most pharmacy benefit services in California, there are many others operating in the market. Each PBM deals with thousands of different drugs. The PBM datasets will be large and complex, requiring expertise and experience to analyze and report on PBM pricing and payment trends. HCAI requires additional staff to establish data reporting procedures, provide technical assistance for submitting data, measure and improve data quality, conduct analysis and make policy recommendations, and manage access and disclosure for the PBM datasets.

The DMHC protects consumers’ health care rights and ensures a stable health care delivery system. Embedded in the mission is the task of evaluating and promoting health plan regulatory compliance and verifying enrollees have consistent access to timely and medically necessary health care services, including all medically necessary prescription drugs.

The DMHC has determined the following resources are necessary to implement the administrative requirements of this proposal.

Office of Plan Licensing (OPL)

The DMHC’s OPL is responsible for assuring regulatory compliance of health plans with the Knox-Keene-Act. This is accomplished by reviewing applications for licensure, material modifications and amendments to existing licenses. This review includes requiring health plans to provide legally sufficient documentation of plan organization, disclosures, enrollee benefits and other aspects of regulatory compliance.

The OPL anticipates an additional workload to conduct legal research, provide guidance,

develop structure for implementation, design filing review guidelines, draft All Plan Letters, review PBMs license applications and ensure regulatory compliance, including reviewing policies and procedures.

The OPL estimates receiving approximately 19 PBM license applications and 19 amendments to PBM license applications annually, following the enactment of the PBM trailer bill language, with comprehensive reviews conducted annually thereafter.

The OPL is requesting the following administrative limited-term resources to address the additional workload during 2025-26:

3.0 Attorney III

These positions will conduct in-depth legal research to establish criteria and requirements for implementation, including developing compliance structures and filing review guidelines. This position will assist with the drafting of All Plan Letters and amendments to the licensure application.

Additionally, these positions will review PBM license applications and related documents to ensure regulatory and legal compliance. Responsibilities include preparing filing summaries or briefing memorandum and drafting responsive comments for PBM licensure filings and subsequent amendments filings. Given the complexity of these reviews, an Attorney III classification level is required.

1.0 Staff Services Manager III

This supervisory position will lead and oversee the OPL legal administrative team, managing the day-to-day operations of the OPL, including providing guidance on the filing review guidelines, All Plan Letters and coordinating project implementation and tracking. Additionally, this position will also be responsible for facilitating and managing key stakeholder meetings.

The DMHC estimates the total OPL administrative costs to be \$1,112,000 in 2025-26.

Office of Financial Review (OFR)

The DMHC's OFR works to ensure 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. The Division of Financial Oversight, within the OFR, monitors and evaluates the financial viability of health plans to ensure continued access to health care services for California enrollees. This is achieved by reviewing financial statements, analyzing financial arrangements, evaluating the information submitted during the licensing, material modification and amendment processes and conducting routine and non-routine financial examinations.

The OFR anticipates an increased workload to review PBM license applications for compliance, review quarterly and annual financial statements, review amendments and modifications filed by PBMs, including related policies and procedures, generate compliance reports and collaborate with the OPL on the licensure process.

The OFR is requesting the following administrative resources to address the additional workload in 2025-26:

1.0 Corporation Examiner IV Specialist

The Corporation Examiner IV Specialist will coordinate with the OPL on implementation activities to ensure compliance with filing guidelines and regulatory requirements for PBMs.

Analytics Client Software Licensing Costs

The OFR requests funding of \$2,000 in 2025-26 to cover statistical analysis licensing costs required to assist the OFR staff in conducting the financial reviews and to assist in determining compliance with the Knox-Keene Act. The DGS service fees associated with this procurement are minimal and will be absorbed within the DMHC's existing budget.

The DMHC estimates the total OFR administrative costs to be \$227,000 in 2025-26.

Office of Legal Services (OLS)

The DMHC's OLS conducts legislative and legal research, drafts analyses for the DMHC and makes policy and operational recommendations consistent with those analyses. The OLS also leads rulemaking activities for the DMHC, including pre-notice stakeholder engagement, research and analysis, drafting regulation language, creating regulation packages, attending public hearings, responding to public comments and shepherding regulation packages through the Office of Administrative Law's review process.

The OLS anticipates additional workload to license PBMs and provide ongoing oversight and regulation of the PBM's activities. The OLS anticipates conducting legal research, promulgating regulations and drafting legal opinion memoranda and other forms of counsel to clarify and provide specificity regarding the new PBM licensure statutes. The OLS also anticipates an additional workload to assist the DMHC OFR and other DMHC programs with formal and informal legal opinions related to the new PBM requirements.

The OLS is requesting the following administrative resources to address the anticipated workload in 2025-26:

1.0 Attorney III

This position will lead the development of highly complex regulations and provide complex legal support for committees and workgroup meetings related to the regulations, implementation and ongoing oversight of PBMs. Additionally, the position will develop strategic guidance, conduct legal research and analysis of highly complex policy issues, and review intricate legal matters to formulate legal opinions and memoranda and support the continued oversight of PBMs.

The DMHC estimates the total OLS administrative costs to be \$286,000 in 2025-26.

Office of Administrative Services (OAS)

The DMHC's OAS is responsible for all administrative support services for the DMHC, including human resources, labor relations, training, EEO (Equal Employment Opportunity), employee wellness, health and safety, accounting, budgeting, facilities management, business services, contracts, procurement, organizational effectiveness and improvement, business continuity planning, policies management and strategic planning.

The DMHC estimates the OAS costs to be \$8,000 in 2025-26 for continuing legal training licenses for the legal administrative positions included in this proposal. The cost is based on an estimated \$2,000 per legal position per year.

Office of Technology and Innovation (OTI)

The DMHC's OTI is responsible for all DMHC Information Technology (IT)-related facets, including application/system development and support, procurement and management of IT assets, data security and supporting staff members' IT needs. Like the OAS, as program areas expand resources to support the programs, the OTI must increase at a similar rate.

Annual Software Licensing for Administrative Positions Requested in this Proposal

The OTI is requesting \$13,000 in 2025-26 for the annual software licensing costs for access to the DMHC Enterprise Software Platforms required for the new positions requested in this proposal.

The OTI also requests \$18,000 in 2025-26 for the OutSystems Enterprise application objects, \$15,000 in 2025-26 for the internal user licensing part of the OutSystems Enterprise, \$2,000 in 2025-26 for the Microsoft PowerApps Plan, \$34,000 in 2025-26 for Confluence licensing, \$26,000 in 2025-26 for Jira licensing to support the new positions requested in this proposal, and \$87,000 in 2025-26 for PowerBI capacity to augment the existing Microsoft PowerBI platform capability.

Consultant Funding

The OTI is requesting limited-term funding for consultant services to support an ongoing IT effort to modify the DMHC systems impacted by the addition of PBM licensure. This funding will ensure the systems can accommodate statutory changes and electronic filings by streamlining the submission of mandated PBM licensing applications by adding a new license type to existing solutions and by capturing new data elements required for licensure within DMHC's existing systems to enhance DMHC's ability to monitor PBM licensees. This approach will ensure the DMHC can meet regulatory requirements of PBM Licensure without changing the underlying technology nor architecture. This request aligns with the State Administrative Manual section 4819.40, which supports the modification and improvement of the existing systems to meet regulatory requirements

The DMHC estimates the consultant services costs to support the ongoing IT effort implementing PBM licensure to be \$425,000 in 2025-26.

The consultant funding is being requested instead of civil service positions due to the immediate need for high-level expertise to perform the subsystem modifications and the short-term nature of the developer workload. The workload is not ongoing and is not sufficient to support permanent civil service resources.

Total OTI Cost

The DMHC estimates the total OTI costs to be \$644,000 in 2025-26.

These costs include \$18,000 in 2025-26 for CDT fees required to execute IT consultant contracts and procurement. These costs also include \$10,000 in 2025-26 for DGS administrative service fees.

HCAI will leverage the existing data infrastructure that it uses today to collect, store, manage, and disseminate such data to implement the requirements of this proposal. This resource request is based on market research and historical experience managing the existing data program and infrastructure and with efforts of similar size and complexity.

HCAI - Data Collection, Quality Management, and Reporting:

The HPD Program will expand to perform data collection and quality management functions for PBM data, which includes working with health plans and insurers, PBMs, and the Department of Managed Health Care to submit data to the HPD. That process involves registering, training, and engaging individuals and organizations about submitting data to the HPD; monitoring submitters' compliance with program statute and regulations; performing data quality assessments; collaborating with submitters on data quality improvement; and overseeing administrative and management tasks associated with those activities.

HCAI requests position authority for 1.0 position.

- Program Specialist (Health Program Specialist II) (1.0 positions)
 - Serve in a lead role overseeing health data policy and integration with HCAI programs.

Database Technology Infrastructure and Data Management:

The HPD Program will leverage its existing infrastructure and capacity and expand it to perform PBM-related database technology and data management functions, which includes overseeing technical administration of all HPD system modules and performing data management activities. These processes include data storage and ingestion; extract, transform, and load functions; data reconciliation; and enforcing data access auditing and security controls.

HCAI requests permanent position authority for 1.0 position.

- Data Management Specialist (Information Technology Specialist I) (1.0 positions)
 - Serve in an associate role performing technical administration of data management and related functions.

Data Privacy, Security, and Governance:

The HPD Program will leverage its existing data privacy, security, and governance capacity and expand it to perform appropriate oversight and control of the new data, which includes managing data classifications, data use agreements, information security compliance plans, and data release and use procedures.

HCAI requests permanent position authority for 1.0 positions.

- Data Confidentiality Specialist (Information Technology Specialist I) (1.0 positions)
 - Serve in an associate role as a business data custodian to maintain safeguards against unauthorized disclosure of any information in the database, including trade secret information.

Legal Services:

HCAI's Office of Legal services will expand its capacity with additional experts to advise on the new program functions in the application of intersecting state and federal laws and regulations.

HCAI requests permanent position authority for 1.0 positions.

- Senior Attorney (Attorney IV) (1.0 position)
 - Serve in a senior role as an attorney to oversee issues of regulation, compliance, and the protection of sensitive information in accordance with applicable laws.
- Associate Attorney (Attorney III) (1.0 position)
 - Serve in an associate role as an attorney to contribute on issues of regulation, compliance, and the protection of sensitive information in accordance with applicable laws.

Acquisition and Management Services:

The HPD Program requires HCAI to provide support services necessary in the administration of the program, which would expand under this proposal and include acquisition and management services to oversee contracts, personnel, budgets, and training.

HCAI requests permanent position authority for 2.0 positions.

- Contracts and Budgets Management Specialist (Information Technology Specialist I) (1.0 position)
 - Serve in a lead role overseeing HPD contracts.

Information Technology & Consulting and Professional Services Contracts

- \$800,000 in consulting and professional services
 - Pharmacy Benefit Management and Health Care subject matter expertise
 - Data collection framework and format development
 - Analytics and research development
- \$3,812,000 in expansion of IT software, services and infrastructure
 - Data collection platform infrastructure
 - Data enclave system infrastructure
 - General IT infrastructure costs

D. Department wide 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 significantly expanding the information available today to the state, researchers, and the public. The PBMs now manage many aspects of prescription drug services for commercial health care markets. The PBMs must be held accountable to ensure that prescription drugs are offered at the most affordable prices. This proposal also supports DMHC's mission to protect consumers' health care rights and ensure a stable health care delivery system,

while HCAI's mission to improve affordability for Californians.

California is already behind other states in collecting and analyzing this data. Currently, 29 other states require some form of PBM reporting to the state government. Required reporting fields often include some form of aggregate rebates, reporting on revenue from other sources and information about payments to health plans and pharmacies.

By collecting this data, California will be on par with other states and PBMs will be on par with other entities in the health care landscape. HCAI and other parts of the State already collect information from health plans, health care facilities, health care providers, and drug manufacturers. Adding PBM data to the HPD framework will help provide a more complete picture of where profits are being retained along the supply chain to consumers' detriment.

E. Outcomes and Accountability

Approval of this proposal will provide DMHC and HCAI with resources necessary to begin implementing the requirements of this proposal.

Market transparency creates the conditions for competitive markets and lower prices. Currently, due to the lack of transparency into the prescription drug market, manufacturers, PBMs and health plans are able to point the blame of high prices at other entities than themselves. This proposal adds to the public information already available about the prescription drug marketplace in California, expanding on the information about the supply chain available through HCAI and DMHC's implementation of SB 17 and HCAI's implementation of the HPD.

In the long term, this will provide consumers and purchasers with more information to support their decisions in the health care market, and it will provide the State with more information to appropriately curb anticompetitive practices that unfairly lead to high drug costs. The California Research Bureau's 2017 Report on SB 17 describes how purchasers use public information to help manage cost. The Institute on Clinical and Economic Review used SB 17 information to identify if price increases are justified, given clinical efficacy and other evidence. The department expects such uses will continue and expand, with the implementation of this proposal.

Additionally, this information will be available to policymakers to inform future policy reform. For example, SB 852 (2020, Pan) requires the California Health and Human Services Agency to consider public information from SB 17 on the impact of prescription drugs on premiums and drugs resulting in the greatest spending, in selecting generic drugs to manufacture. If this proposal is enacted, policymakers would be better equipped with critical data (that is currently not collected) to inform policies on lowering the cost of care and improving competition in the prescription drug market.

To achieve the outcomes described above, the expected specific outcomes of this BCP are improved transparency, oversight, and accountability of PBMs and prescription drug cost.

F. Implementation Plan

DMHC and HCAI will use a phased approach to allow sufficient time for recruitment, stakeholder engagement, data collection program development, building expertise in PBM licensure and data. This BCP adds resources for the work listed below.

FY 2025-2026:

- Begin to hire staff and perform administrative activities that expand the licensure and HPD data collection program to include PBM data.
- Begin to hire staff to develop knowledge and training regarding PBM practices.
- Initiate a communication program that engages PBMs and other stakeholders:
 - Gather input that contributes to development of data file formats and PBM data collection regulations.
 - Communicate the intent and goals of the program, helping to set stakeholder expectations and improve participation in new processes.
- Contract with subject matter experts and improve capabilities to handle the new PBM submitters and PBM data stream.
- Add a PBM representative to the HPD Advisory Committee.
- Develop a file format and emergency regulations for PBM data collection.

G. Supplemental Information

This request will be funded through the annual assessment of the PBMs that are regulated by the DMHC. For fiscal year 2025-26, while the PBM licensure system is being established, this request will be funded through an additional assessment on health plans through the DMHC Managed Care Fund. The fiscal impact of this request to full-service health plans is approximately \$0.17 per enrollee in 2025-26.

Attachments

- Attachment A -- BCP Fiscal Detail Sheet
- Attachment B -- Workload Analysis
- Attachment C -- Current Organization Charts

Attachment A

BCP Fiscal Detail Sheet

(Dollars in Thousands)

BCP Title: Pharmacy Cost Transparency and Accountability

BR Name: 4150-058-BCP-2025-MR

Budget Request Summary

Personal Services

Personal Services	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
Positions - Temporary	0.0	6.0	0.0	0.0	0.0	0.0
Total Positions	0.0	6.0	0.0	0.0	0.0	0.0
Salaries and Wages	0	912	0	0	0	0
Earnings - Temporary Help						
Total Salaries and Wages	\$0	\$912	\$0	\$0	\$0	\$0
Total Staff Benefits	0	561	0	0	0	0
Total Personal Services	\$0	\$1,473	\$0	\$0	\$0	\$0

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
5301 - General Expense	0	11	0	0	0	0
5302 - Printing	0	6	0	0	0	0
5304 - Communications	0	6	0	0	0	0
5306 - Postage	0	6	0	0	0	0
5320 - Travel: In-State	0	21	0	0	0	0
5322 - Training	0	24	0	0	0	0
5324 - Facilities Operation	0	36	0	0	0	0
5340 - Consulting and Professional Services - Interdepartmental	0	10	0	0	0	0
5340 - Consulting and Professional Services - External	0	425	0	0	0	0
5344 - Consolidated Data Centers	0	18	0	0	0	0
5346 - Information Technology	0	201	0	0	0	0
5368 - Non-Capital Asset Purchases - Equipment	0	42	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$806	\$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	\$2,279	\$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 - 3447 - Pharmacy Benefit Manager Fund	0	2,279	0	0	0	0
Total State Operations Expenditures	\$0	\$2,279	\$0	\$0	\$0	\$0
Total All Funds	\$0	\$2,279	\$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	2,279	0	0	0	0
Total All Programs	\$0	\$2,279	\$0	\$0	\$0	\$0

Personal Services Details

Positions

Positions	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
TH00 - Temporary Help (Eff. 07-01-2025)(LT 06-30-2026)	0.0	6.0	0.0	0.0	0.0	0.0
Total Positions	0.0	6.0	0.0	0.0	0.0	0.0

Salaries and Wages

Salaries and Wages	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
TH00 - Temporary Help (Eff. 07-01-2025)(LT 06-30-2026)	0	912	0	0	0	0
Total Salaries and Wages	\$0	\$912	\$0	\$0	\$0	\$0

Staff Benefits

Staff Benefits	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
5150450 - Medicare Taxation	0	13	0	0	0	0
5150500 - OASDI	0	57	0	0	0	0
5150630 - Retirement - Public Employees - Miscellaneous	0	311	0	0	0	0
5150820 - Other Post-Employment Benefits (OPEB) Employer Contributions	0	17	0	0	0	0

Staff Benefits	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
5150900 - Staff Benefits - Other	0	163	0	0	0	0
Total Staff Benefits	\$0	\$561	\$0	\$0	\$0	\$0

Total Personal Services

Total Personal Services	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
Total Personal Services	\$0	\$1,473	\$0	\$0	\$0	\$0

BCP Fiscal Detail Sheet

(Dollars in Thousands)

HCAI

BR Name: 4140-096-BCP-2025-MR

Budget Request Summary

Personal Services

Personal Services	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
Positions - Permanent	0.0	6.0	6.0	6.0	6.0	6.0
Total Positions	0.0	6.0	6.0	6.0	6.0	6.0
Earnings - Permanent	0	715	0	0	0	0
Total Salaries and Wages	\$0	\$715	\$0	\$0	\$0	\$0
Total Staff Benefits	0	409	0	0	0	0
Total Personal Services	\$0	\$1,124	\$0	\$0	\$0	\$0

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
5301 - General Expense	0	305	0	0	0	0
5320 - Travel: In-State	0	18	0	0	0	0
5322 - Training	0	6	0	0	0	0
5324 - Facilities Operation	0	84	0	0	0	0
5340 - Consulting and Professional Services - External	0	800	0	0	0	0
5346 - Information Technology	0	3,872	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$5,085	\$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	\$6,209	\$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 - 3447 - Pharmacy Benefit Manager Fund	0	6,209	0	0	0	0
Total State Operations Expenditures	\$0	\$6,209	\$0	\$0	\$0	\$0
Total All Funds	\$0	\$6,209	\$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
3860 - Administration	0	850	0	0	0	0
3865 - Health Care Payments Data Program	0	5,359	0	0	0	0
Total All Programs	\$0	\$6,209	\$0	\$0	\$0	\$0

Personal Services Details

Positions

Positions	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
VR00 - Various	0.0	6.0	6.0	6.0	6.0	6.0
Total Positions	0.0	6.0	6.0	6.0	6.0	6.0

Salaries and Wages

Salaries and Wages	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
VR00 - Various	0	715	0	0	0	0
Total Salaries and Wages	\$0	\$715	\$0	\$0	\$0	\$0

Staff Benefits

Staff Benefits	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
5150900 - Staff Benefits - Other	0	409	0	0	0	0
Total Staff Benefits	\$0	\$409	\$0	\$0	\$0	\$0

Total Personal Services

Total Personal Services	FY25 Current Year	FY25 Budget Year	FY25 BY+1	FY25 BY+2	FY25 BY+3	FY25 BY+4
Total Personal Services	\$0	\$1,124	\$0	\$0	\$0	\$0

ATTACHMENT B
WORKLOAD STANDARDS
DMHC Office Plan Licensing (OPL)
Equivalent to 3.0 Attorney III

Activities/ Tasks	2025-26 Tasks Per Year	2025-26 Hours Per Task	2025-26 Total Hours
Conduct legal research to determine criteria and requirements for implementation.	3	128	384
Develop structure of compliance implementation.	3	100	300
Design filing review guidelines for external and internal review.	6	100	600
Develop enhancement requirements to eFiling Database.	3	200	600
Draft and issue APL.	3	50	150
Draft Licensure Application.	3	10	30
Draft amendments to the Licensure Application.	3	100	300
Develop reports.	12	5	60
Review all initial PBM license applications for regulatory compliance, including policies and procedures, contracts and coordinate with staff on any moderately complex issues.	18	60	1080
Review all amendments to PBM license applications for regulatory compliance, including policies and procedures, contracts and coordinate with staff on any moderately complex issues.	18	50	900
Consult with management and analysts regarding filings.	36	1.5	54
Conduct teleconferences with PBMs regarding issues.	36	1.5	54
Review compliance reports.	6	5	60

Weekly Meetings with management and Attorney IV.	156	3	468
Attend Team Meetings.	156	2.5	390
Total Hours Worked			5,400
Number of Equivalent Positions Required			3.0

WORKLOAD STANDARDS
DMHC Office Plan Licensing (OPL)
1.0 Staff Services Manager III

Activities/ Tasks	Tasks Per Year	Hours Per Task	2025-26 Total Hours
Manage the development and implementation of division policies, procedures, training and other work tools to ensure efficient and effective completion of program activities.	1	75	75
Manage the day-to-day operations of the Division and either directly, or through subordinate supervisors, provide for recruitment, selection, orientation and development of staff, training assessments, performance evaluations, discipline, and leadership development of supervisory staff.	1	75	75
Directly support the DD director and four ACCs regarding HR matters, hiring, and other related personnel matters, including but not limited to assisting with work related to fiscals and budget issues, assessing and advising on team placement of new positions, and planning division team building events.	1	200	200
Manage the creation and development and maintenance of project implementation, tracking and mechanisms to monitor and evaluate project progress toward meeting timeframes and deliverables.	2	5	10
Manage regular occurring project meetings and coordinate with health plans and external vendors. Works closely with other agencies regarding multi-department review.	1	3	3
Manage filing review, reporting and other activities to support the Division's strategic goals and action items. Works closely with other agencies regarding multi-department review.	1	120	120
Identify needs for new or revised legislation and regulations and present recommendations on next steps for potential law changes to Department management.	1	3	3
Creation and development of various databases and coordinating with OTI and other Offices.	2	525	1,050
Represent the Department at meetings and conferences regarding licensing and registration.	1	4	4

Weekly management, team and 1-1 meetings.	52	5	260
Total Hours Worked			1,800
Number of Equivalent Positions Required			1.0

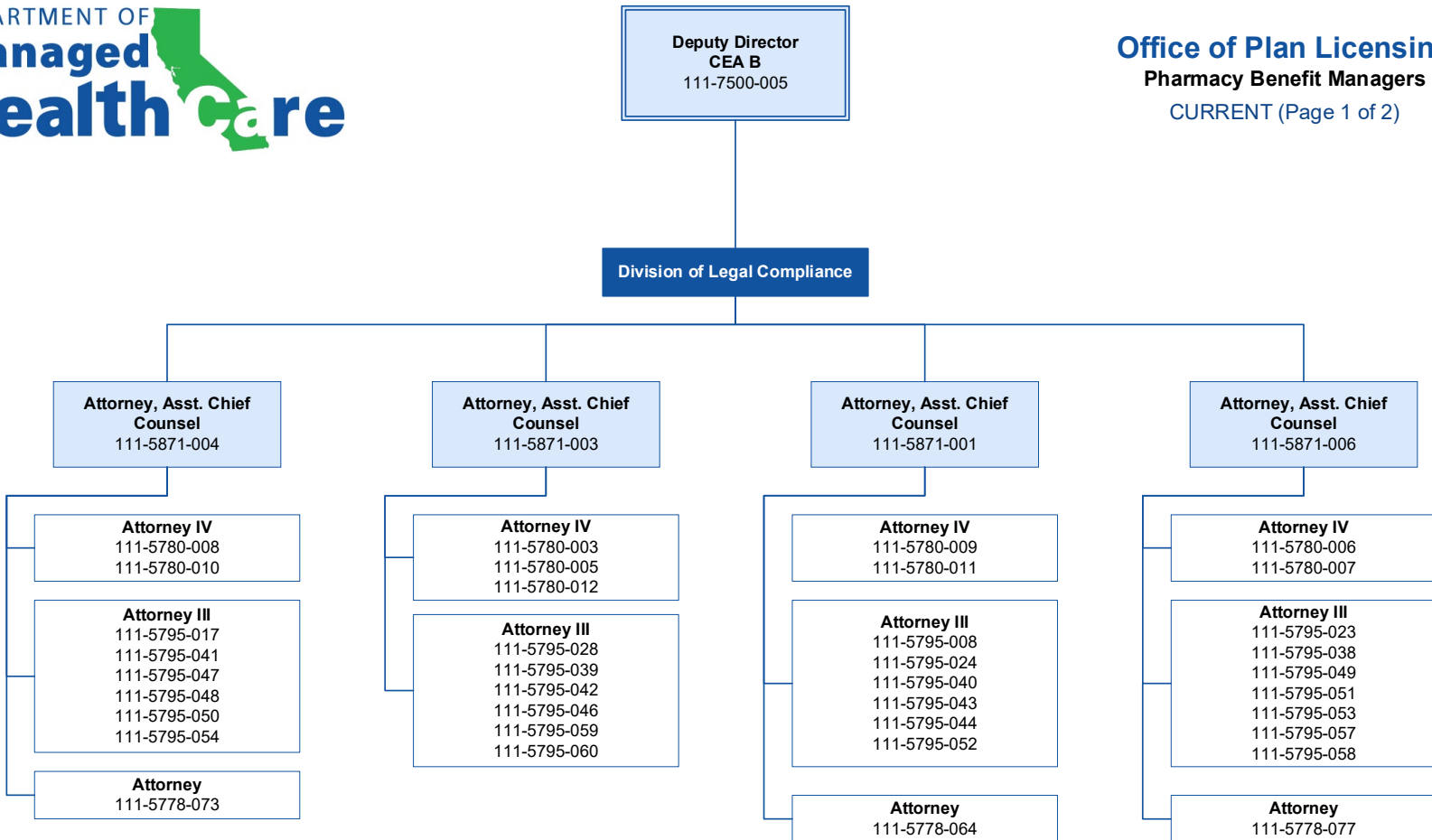
WORKLOAD STANDARDS
DMHC Office of Financial Review (OFR)
1.0 Corporation Examiner IV-Spec

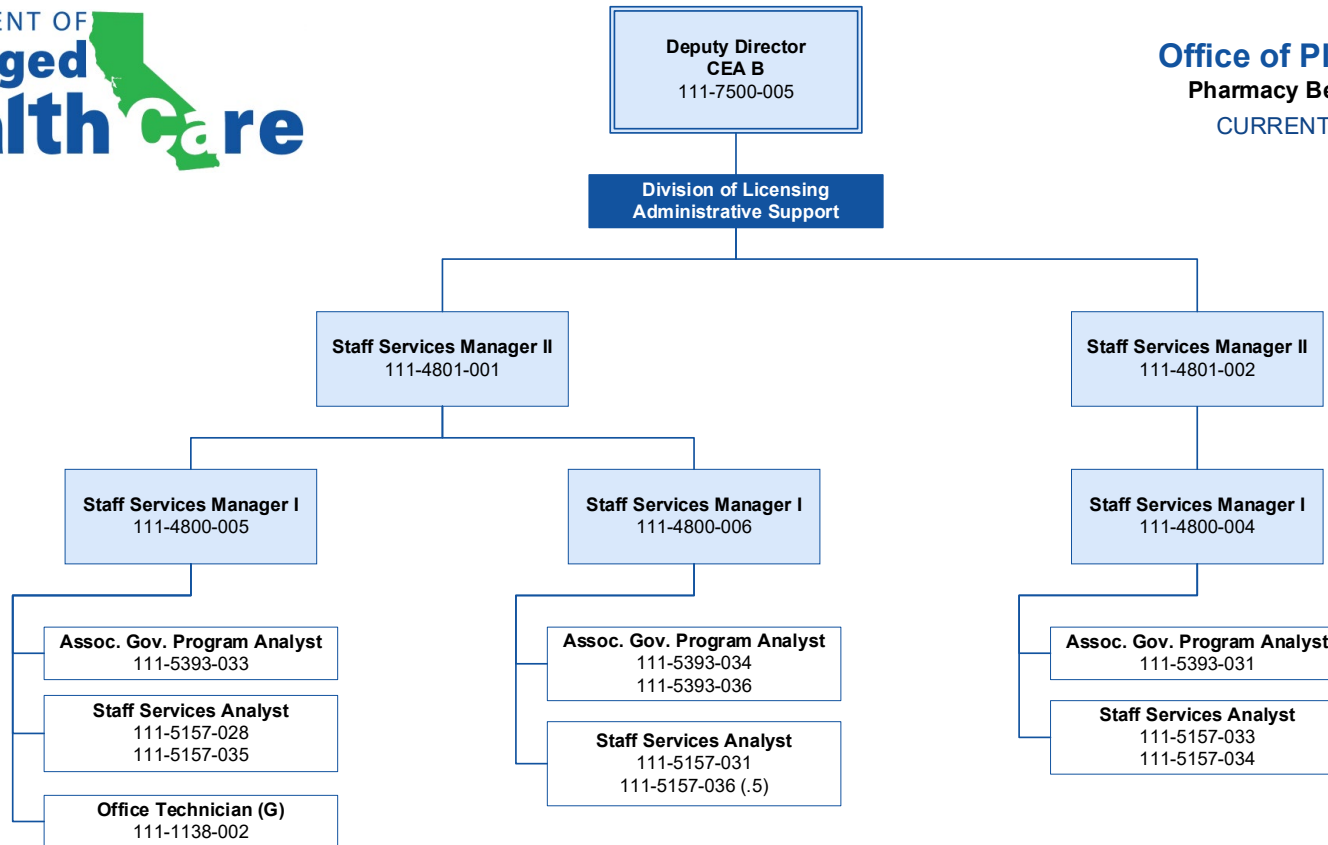
Activities/ Tasks	2025-26 Tasks Per Year	2025-26 Hours per Task	2025-26 Total Hours
Coordinate with OPL on implementation activities, such as compliance requirements and filing guidelines.	1	600	600
Develop reporting templates and examination procedures in conjunction with consultant.	1	600	600
Collaborate with and oversee the update of internal examination procedures and templates related to PBMs, including in claims workbooks, examiner's guide, claims TAG, etc. Review and maintain updates on an annual basis.	1	600	600
Total Hours Worked			1,800
Number of Equivalent Positions Required			1.0

WORKLOAD STANDARDS
DMHC Office of Legal Services (OLS)
1.0 Attorney III

Activities/ Tasks	Total Tasks	Hours Per Task	Total Annual Hours
Conduct consultant, economist, and stakeholder meetings, capture and compile feedback, compile research and analysis regarding most highly complex policy concerns and recommendations on policy guidance to management	1	250	250
Lead recurring work group meetings with program divisions involved with regulation promulgation, compile and capture feedback, determine what revisions are required, draft initial text of the proposed feedback, process draft regulation internally for management and program approval.	1	200	200
Draft final regulation text and incorporated documents (statement of reasons, notices, and APA required documents) for management, Agency, and Department of Finance review and approval, finalize any revisions and submit rulemaking package to the Office of Administrative Law (OAL).	1	460	460
Shepard regulation through formal rulemaking process, hold public hearings, summarize and compile comments from stakeholder feedback, analyze and respond to comments, prepare draft of final rulemaking documents for internal review, submit final rulemaking package to the Office of Administrative Law (OAL), and serve as lead on recommendation guidance from OAL attorneys in getting rulemaking package finalized for approval with Secretary of State.	1	800	800
Provide legal support of committees and work group meetings related to legal recommendations for regulation.	1	20	20
Serve as lead on post-implementation actions including answering internal and external questions that arise from regulations, conduct additional stakeholder meetings, and advise executive management, Agency, and the Governor's Office on additional policy implications and legal impacts.	1	70	70
Total Hours Worked			1,800

Number of Equivalent Positions Required			1.0
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**Deputy Director
CEA B**
121-7500-004

Office of Financial Review

Pharmacy Benefit Managers

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