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

Fiscal Year	**Business Unit Number**	**Department**
2025-26	4265	California Department of Public Health

Hyperion Budget Request Name	**Relevant Program or Subprogram**
4265-261-BCP-2025-MR	4050010 – Health Facilities

Budget Request Title
Generative Artificial Intelligence

Budget Request Summary
The California Department of Public Health (CDPH) requests $8 million in 2025-26 from the Internal Departmental Quality Improvement Account (Fund 0942-222) to support a Minimum Viable Product (MVP) Generative Artificial Intelligence (GenAI) Contract, with provisional language authorizing expenditure of funds upon approval of a Minimum Viable Product by the Department of Technology and the Department of Finance.

Requires Legislation (submit required legislation with the BCP)	**Code Section(s) to be Added/Amended/Repealed**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

Does this BCP contain information technology (IT) components? ☒ Yes ☐ No *If yes, departmental Chief Information Officer must sign.*	**Department CIO** John Roussel	**Date** 2/9/2025

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. 4265-095 **Project Approval Document:** Proof of Concept/Chapter 2 (Project Delivery Lifecycle)
Approval Date: TBD **Total Project Cost:** TBD

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**
Eric Ruth	2/5/2025	Phuong La	2/9/2025
Department Director	**Date**	**Agency Secretary**	**Date**
Susan Fanelli	2/10/2025	Julie Souliere	2/13/2025

Department of Finance Use Only

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

Principal Program Budget Analyst	**Date submitted to the Legislature.**
Nina Hoang	5/14/2025

A. Problem Statement

Center for Health Care Quality (CHCQ) is responsible for regulatory oversight of licensed health care facilities and health care professionals to assess the safety, effectiveness, and quality of health care for all Californians. CHCQ fulfills this role by conducting periodic inspections and complaint investigations of health care facilities to determine compliance with federal and state laws and regulations. CHCQ receives funds through Title XVIII and Title XIX grants from the Centers for Medicare and Medicaid Services (CMS) and licensing fees paid by health care facilities. CHCQ licenses and certifies over 15,000 health care facilities and agencies across California in 30 different licensure and certification categories. CHCQ evaluates health care facilities for compliance with state and federal laws and regulations, and contracts with the Los Angeles County Department of Public Health to license and certify health care facilities located in Los Angeles County.

Health and Safety Code section 1280.15(f) establishes the Internal Departmental Quality Improvement Account (IDQIA) and provides that "moneys in the account shall be expended for internal quality improvement activities in the Licensing and Certification Program." The account is funded by administrative penalties that the California Department of Public Health (CDPH) imposes on health facilities for violations that cause harm to a patient, or administrative penalties associated with breaches of medical information. Since fiscal year 2010-11, the Legislature has appropriated moneys in IDQIA to be expended for internal quality improvement activities.

CHCQ uses IDQIA to fund both large scale quality improvements requiring the Project Approval Lifecycle (PAL) process as well as small scale improvements such as robotic process automation, implementing use-cases for previously PAL-approved technology such as Microsoft Dynamics, equipment purchases, etc., that are not required to go through the PAL process. These projects directly improve the quality and efficiency of CHCQ's services to providers and the public.

CHCQ conducts thousands of healthcare facility inspections annually. For example, in 2024 CHCQ received nearly 52,000 complaints across all facility types. These inspections demand meticulous documentation of collected evidence and rigorous evaluation of facilities' compliance with state and federal regulatory standards. With each investigation, the surveyors take extensive investigative notes, compile evidence, and manually write a comprehensive Statement of Deficiencies and Plan of Correction (CMS-2567) for issuance to the surveyed facility or provider. Numerous findings typically result in extensive documentation, reaching upwards of hundreds of pages.

This labor-intensive process places a significant burden on surveyors, leading to potential inconsistencies, delays in moving onto the next survey, and creating challenges for CHCQ to meet increasing workload demand in a time efficient and effective manner. Surveyors must write a rigorous legal document, ensuring that these reports withstand challenges and appeals, and require a level of detail that can be difficult to maintain consistently.

CHCQ recognizes that delays in inspections may result in unresolved quality issues in healthcare facilities, increasing risks to patient safety. Additionally, inconsistent or inadequate documentation can lead to successful citation appeals, undermining the enforcement of healthcare standards and regulations. This document-heavy process also contributes to job dissatisfaction, burnout, and high turnover rates among surveyors, limiting CHCQ's capacity for thorough and timely inspections while increasing recruitment and training costs.

IDQIA Resource History

(Dollars in thousands)

Program Budget	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25*
Authorized Expenditures	$2,600	$3,600	$3,699	$3,686	$716	$1,570
Actual Expenditures	$2,419	$2,455	$3,608	$3,686	$466	$1,570
Revenues	$2,895	$1,951	$1,666	$2,689	$5,900	$5,900

* Projected

B. Justification

CDPH requests $8 million in 2025-26 from the Internal Departmental Quality Improvement Account (Fund 0942-222) to support a Minimum Viable Product (MVP) Generative Artificial Intelligence (GenAI) Contract with provisional language authorizing expenditure of funds upon approval of a Minimum Viable Product by the Department of Technology and the Department of Finance, including approval of the executed contract and project cost breakdown.

The GenAI solution designed during the Proof of Concept (POC) phase of the project has successfully demonstrated an ability to help surveyors produce high quality, accurate reports more quickly. The solution supports the surveyor to sift through collected evidence, and suggests relevant citations that the surveyor can accept, delete, or edit. Once the surveyor is satisfied with the findings, the GenAI tool generates accurate, grammatically correct and well-supported first draft reports that can withstand legal challenges. This reduces the administrative burden while accelerating the process of creating a report draft.

The GenAI tool optimizes the processes while easing operational burdens:

- Surveyors need and want to leverage their expertise:
    - By reducing the burden of trying to remember hundreds of applicable regulations, the time spent on administrative tasks, writing report drafts from scratch, and back and forth edits with a supervisor, surveyors will have more time to spend on aspects of investigations that use their clinical expertise.
- Inconsistent documentation opens the risk of appeals:
    - Lack of standardization in approach and documentation among surveyors can undermine enforcement and lead to successful appeals. CHCQ can greatly reduce the risk of appeals by collecting consistent and relevant documentation.
- A focus on surveyor retention through process efficiency:
    - Surveyor burnout and high turnover rates increase costs and limit CHCQ's capacity to meet inspection demands. Facing the ever-present stresses of a burdensome and extensive report compilation process places enormous pressure on surveyors. Alleviating that pressure by allowing them to compile and produce report drafts more efficiently can reduce burnout and boost retention among surveyors overall.

By leveraging GenAI, CHCQ envisions an oversight process where surveyors are supported by GenAI that accelerates the generation of draft statement of deficiencies reports, and that fosters consistent, high-quality output. Surveyors' clinical experience and professional judgment are irreplaceable, and it is for that reason that the GenAI solution will be designed to reduce the administrative burden while maintaining a "human-in-the-loop" approach, ensuring that surveyors remain in control of the contents and outcome of their investigation. This collaboration between the distinct value of human expertise and the generative power of artificial intelligence (AI) balances the efficiency of automation with the need for accurate and defensible reports

that reflect on-the- ground realities.

Additionally, the GenAI solution directly supports CHCQ's mission to protect the quality and safety of health care for all Californians by enabling surveyors to issue their Statements of Deficiency and bring facilities back into compliance faster. By aligning with the operational goals of the Field Operations Divisions, the solution facilitates surveyors are better equipped to conduct thorough evaluations, maintain regulatory compliance, and ultimately improve the standards of care in health facilities across California.

The GenAI solution will provide the following support to CHCQ:

- Accurate and consistent documentation:
    - Together with a human in the loop, the GenAI tool ensures survey findings are thoroughly and accurately documented. By generating comprehensive Report Drafts, the tool can help minimize variability.
- Objective analysis:
    - By reducing inconsistency in survey outcomes, the tool can help reinforce that all facilities are held to the same high standards. This leads to more reliable identification and correction of quality and safety issues in healthcare facilities.
- Efficient survey processes:
    - The GenAI tool accelerates the survey process by automating documentation processing and Report Draft generation. This allows surveyors to complete more inspections in less time, thus enhancing CHCQ's overall regulatory oversight capabilities.
- Regulations compliance:
    - The GenAI tool is designed to help surveyors identify and document deficiencies related to relevant regulations. This relieves the burden of the surveyor having to remember all applicable regulations and ensures that facilities are thoroughly evaluated for compliance, protecting both public funds and patient safety.
- Detailed citations:
    - The tool can help develop precise and well-supported citations, which are essential for upholding regulatory standards and withstanding challenges or appeals from cited healthcare facilities.
- A Critical Step in a Complex Process:
    - The tool has been designed to enhance surveyor writing, which is one critical step in the broader facility inspection process.

C. Departmentwide and Statewide Considerations

This proposal aligns with Governor Newsom's Executive Order N-12-23. The implementation of the GenAI solution marks a significant step forward in enhancing CHCQ's efficiency, accuracy and equity of healthcare facility inspections. By leveraging AI technologies, this tool aims to streamline the survey process, reduce writing time, and improve consistency in survey outcomes supporting CHCQ's mission of protecting and improving the quality and safety of health care for all Californians.

D. Outcomes and Accountability

The GenAI POC solution successfully demonstrated the transformative potential of GenAI in streamlining the labor-intensive complaint investigation processes. However, more work is needed to be able to operationalize this tool. For example, the POC was limited to public-facing information that could be transferred to a California Department of Technology sandbox. In the next phase, the POC environment must be housed in CDPH's environment so that the product can be tested using investigations that contain protected health information. These investigations are expected to be more complex and lengthier than the sample provided during the POC phase.

- Technological enablement: Solidify and extend existing GenAI capabilities to enable repeatable, reusable, and modular use cases. This includes building a common framework for application development, deployment, monitoring, governance, and moderation control, as well as enabling centralized governance and monitoring for all use cases to provide a comprehensive view of all projects.

- Elevate continuous improvement efforts: continuous improvement is the foundation of any successful technical solution, particularly when involving GenAI. This includes:

    - Regular updates and enhancements based on user feedback and evolving regulatory requirements. These kinds of iterative improvements are key to maintaining the solution's relevance and efficacy in supporting surveyors in completing the inspection process.

    - Development and monitoring of Key Performance Indicators (KPI) to measure and track improvements that are material to the success of scaling the solution to a broader set of use cases.

- Demonstrate both meaningful time savings and quality improvement in surveys:

    - While the vendor-led testing during the POC phase demonstrated both time savings and a high-quality output, this data is not an apples-to-apples comparison of steps surveyors would need to complete in a live investigation.

    - Additional testing and updates based on user feedback are needed to fully assess the impact on time savings and quality improvement.

Projected Outcome*

Workload Measure	2024-25	2025-26	2026-27	2027-28	2029-30	2030-31
Complaints Received (GACH/SNF)	39,544	42,544	45,544	48,544	51,544	54,444
Off-site writing time efficiency improvement %	0	0	15%	20%	20%	20%
Supervisory Review efficiency improvement %	0	0	15%	20%	20%	20%

*These projected outcomes are conservative, broad estimates based on capabilities demonstrated in the POC phase. Further refinement and testing are needed to assess real-world time savings and impact on workload.

E. Implementation Plan

- CHCQ seeks to secure an initial contract to deliver a working MVP GenAI solution that can be used in live Complaint and Facility Reported Incident (FRI) investigations. This MVP will be limited to Skilled Nursing Facilities (SNF) and General Acute Care Hospitals (GACH).
    - The MVP will involve onboarding the GenAI solution into the CDPH environment, migrating the pilot solution to a Power Platform, integrating multiple large language models and enabling different roles (such as the inspector and the supervisor).
    - The GenAI solution will be measured against vigorous KPIs including gained efficiency, accuracy, and user experience.

F. Supplemental Information (If Applicable)

- Attachment A: BCP Fiscal Detail Sheet

Attachment A: BCP Fiscal Detail Sheet

BCP Title: Generative Artificial Intelligence (GenAI) Contract
BR Name: 4265-261-BCP-2025-MR
Budget Request Summary

Operating Expenses and Equipment

Operating Expenses and Equipment	Current Year	Budget Year	BY+1	BY+2	BY+3	BY+4
5340 – Consulting and Professional Services – External	0	8,000	0	0	0	0
Total Operating Expenses and Equipment	**$0**	**$8,000**	**$0**	**$0**	**$0**	**$0**

Total Budget Request	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Fund Summary
Fund Source – State Operations

0942 – Special Deposit Fund	0	8,000	0	0	0	0
Total State Operations Expenditures	**$0**	**$8,000**	**$0**	**$0**	**$0**	**$0**
Total All Funds	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Program Summary
Program Funding

4050010 – Health Facilities	0	8,000	0	0	0	0
Total All Programs	**$0**	**$8,000**	**$0**	**$0**	**$0**	**$0**