

AMENDED IN SENATE AUGUST 17, 1998
AMENDED IN SENATE AUGUST 12, 1998
AMENDED IN ASSEMBLY APRIL 27, 1998

CALIFORNIA LEGISLATURE—1997–98 REGULAR SESSION

ASSEMBLY BILL

No. 2729

Introduced by Assembly Member Alquist
(Coauthors: Assembly Members Figueroa, Honda, Lempert,
and Prenter)
(Coauthor: Senator Vasconcellos)

February 23, 1998

An act to amend ~~Section 14087.3~~ *Sections 14087.3, 14087.4, 14087.47, 14087.55, 14088.18, 14088.6, 14089, 14089.8, 14139.13, 14204, 14499.5, and 14594* of the Welfare and Institutions Code, relating to Medi-Cal.

LEGISLATIVE COUNSEL'S DIGEST

AB 2729, as amended, Alquist. Medi-Cal: managed care provider payment rates.

Existing law provides for the Medi-Cal program, which is administered by the State Department of Health Services, pursuant to which medical benefits are provided to public assistance recipients and certain other low-income persons.

Existing law authorizes the department to contract with various types of health care providers and entities in order to obtain Medi-Cal services through managed care arrangements. *Existing law requires that various of those*

contracts are subject to the approval of the Department of Finance.

This bill would require that the department determine preliminary per capita payment rates for managed care plans and provide to them preliminary contract rates and source documents at least 60 days prior to the effective date of each new rate period.

The bill would require, on or before June 1, 1999, the department to enter into a memorandum of understanding with the managed care plans subject to these provisions regarding the development of capitation rates to ensure that capitation rates become effective in a timely manner and remain stable throughout the rate year. *The bill would delete the requirement of approval by the Department of Finance of specified types of contracts.*

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 14087.3 of the Welfare and
2 Institutions Code is amended to read:

3 14087.3. (a) The director may contract, on a bid or
4 nonbid basis, with any qualified individual, organization,
5 or entity to provide services to, arrange for or case
6 manage the care of Medi-Cal beneficiaries. At the
7 director's discretion, the contract may be exclusive or
8 nonexclusive, statewide or on a more limited geographic
9 basis, and include provisions to do the following:

10 (1) Perform targeted case management of selected
11 services or beneficiary populations where it is expected
12 that case management will reduce program
13 expenditures.

14 (2) Provide for delivery of services in a manner
15 consistent with managed care principles, techniques, and
16 practices directed at ensuring the most cost-effective and
17 appropriate scope, duration, and level of care.

18 (3) Provide for alternate methods of payment,
19 including, but not limited to, a prospectively negotiated
20 reimbursement rate, fee-for-service, retainer, capitation,



1 shared savings, volume discounts, lowest bid price,
2 negotiated price, rebates, or other basis.

3 (4) Secure services directed at any or all of the
4 following:

5 (A) Recruiting and organizing providers to care for
6 Medi-Cal beneficiaries.

7 (B) Designing and implementing fiscal or other
8 incentives for providers to participate in the Medi-Cal
9 program in cost-effective ways.

10 (C) Linking beneficiaries with cost-effective
11 providers.

12 (5) Provide for:

13 (A) Medi-Cal managed care plans contracting under
14 this chapter or Chapter 8 (commencing with Section
15 14200) to share in the efficiencies and economies realized
16 by those contracts.

17 (B) Effective coordination between contractors
18 operating under this article and Medi-Cal managed care
19 plans in the management of health care provided to
20 Medi-Cal beneficiaries.

21 (6) Permit individual physicians, groups of physicians,
22 or other providers to participate in a manner that
23 supports the organized system mode of operation.

24 (7) Encourage group practices with relationships with
25 hospitals having low unit costs.

26 (b) The director may require individual physicians,
27 groups of physicians, or other providers as a condition of
28 participation under the Medi-Cal program, to enter into
29 capitated contracts pursuant to this section in order to
30 correct or prevent irregular or abusive billing practices.
31 No physician, groups of physicians, or other providers
32 shall be reimbursed for services rendered to Medi-Cal
33 beneficiaries if the physician, group of physicians, or
34 other providers has declined to enter into a contract
35 required by the director pursuant to this section.

36 (c) The department shall seek federal waivers
37 necessary to allow for federal financial participation
38 under this section.

39 (d) (1) Notwithstanding the provisions of this
40 chapter, the department shall determine preliminary per



1 capita rates of payment for services provided to Medi-Cal
2 beneficiaries enrolled in a managed care program
3 contracting in areas specified by the director for
4 expansion of the Medi-Cal managed care program under
5 this section, or Sections 14018.7, 14087.31, 14087.35,
6 14087.36, 14087.38, or 14087.96. The department shall
7 provide to each managed care plan the preliminary
8 contract rates and source documents at least 60 days prior
9 to the effective date of each new rate period.

10 (2) On or before June 1, 1999, the department shall
11 enter into a memorandum of understanding with the
12 managed care plans subject to paragraph (1) regarding
13 the development of capitation rates. This memorandum
14 of understanding, which is intended to ensure that
15 capitation rates become effective in a timely manner and
16 remain stable throughout the rate year, shall establish all
17 of the following:

18 (A) A process and timetable for the managed care
19 plans to review and comment on any modifications in the
20 rate development methodology.

21 (B) A process and timetable for managed care plans to
22 provide comments on the draft rates.

23 (C) A process and timetable for the department to
24 respond to managed care plan comments on the draft
25 rates.

26 (D) A process and timetable to managed care finalize
27 capitation rates.

28 *SEC. 2. Section 14087.4 of the Welfare and Institutions*
29 *Code is amended to read:*

30 14087.4. (a) Any contract made pursuant to this
31 article may be renewed if the provider continues to meet
32 the requirements of this chapter, regulations
33 promulgated pursuant thereto, and the contract. Failure
34 to meet these requirements shall be cause for nonrenewal
35 of the contract. The department may condition renewal
36 on timely completion of a mutually agreed upon plan of
37 correction of any deficiencies.

38 (b) The department may terminate or decline to
39 renew a contract, in whole or in part, when the director
40 determines that such action is necessary to protect the



1 health of the beneficiaries or the funds appropriated to
2 carry out the Medi-Cal program. Nonrenewal or
3 termination under this article shall not qualify the
4 applicant for an administrative hearing including a
5 hearing pursuant to Section 14123.

6 (c) In order to achieve maximum cost savings the
7 Legislature hereby determines that an expedited
8 contract process for contracts under this article is
9 necessary. Therefore contracts under this article shall be
10 exempt from the provisions of Chapter 2 (commencing
11 with Section 10290) of Part 2 of Division 2 of the Public
12 Contract Code. ~~Contracts shall have no force and effect~~
13 ~~unless approved by the State Department of Finance.~~

14 (d) For any contract entered into pursuant to this
15 article, the Commissioner of Corporations shall, at the
16 director's request and with all due haste, grant an
17 exemption from the provisions of Chapter 2.2
18 (commencing with Section 1340) of Division 2 of the
19 Health and Safety Code for purposes of carrying out the
20 contract.

21 *SEC. 3. Section 14087.47 of the Welfare and*
22 *Institutions Code is amended to read:*

23 14087.47. (a) The department may contract under
24 this article with the Counties of Sonoma, Placer, and San
25 Luis Obispo, which have been selected by the
26 department through a request for proposal process, for
27 the operation of a fee-for-service managed care program
28 administered by the county through which primary care,
29 specialty care, and case management are provided to
30 residents of the county who are Medi-Cal eligible persons
31 designated by the director.

32 (b) (1) Upon receipt of the necessary federal
33 medicaid freedom of choice waivers, the department
34 may, consistent with the federal waivers, assign to a
35 fee-for-service managed care program residents of the
36 county who are Medi-Cal eligible persons with Medi-Cal
37 aid codes designated by the director. The department
38 may require that assigned beneficiaries receive their
39 Medi-Cal services and case management through the
40 program.



1 (2) Medi-Cal eligible county residents who are dually
2 eligible for Medi-Cal and Medicare benefits shall not,
3 however, be assigned to a fee-for-service managed care
4 program.

5 (3) Medi-Cal beneficiaries eligible for benefits
6 through age, blindness, or disability, as defined in Title
7 XVI of the Social Security Act (42 U.S.C. Sec. 1381 et. seq.)
8 shall be assigned to a fee-for-service managed care
9 program. However, each county participating in the
10 program authorized by this section shall allow these
11 beneficiaries to select a provider or providers of their
12 choice and shall ensure that existing provider-patient
13 relationships are permitted to continue.

14 (4) Services covered by the California Children's
15 Services program shall not be incorporated into a
16 fee-for-service managed care program in a manner that
17 is inconsistent with Article 2.98 (commencing with
18 Section 14094).

19 (5) A foster child may be enrolled voluntarily in a
20 fee-for-service managed care program if the county
21 director of social services, or his or her delegated
22 representative, makes an individual determination that
23 enrollment in a fee-for-service managed care program is
24 in the best interest of the child. In determining what is in
25 the best interest of the foster child, the county director of
26 social services, or his or her delegated representative,
27 shall consult with the child's caretaker, and shall include
28 the decision of whether or not to enroll the child in a
29 fee-for-service managed care program in the child's case
30 plan provided for pursuant to subdivision (b) of Section
31 11400.

32 (c) Each contract entered into by the department
33 under this section may have an initial term of up to three
34 years. Contracts may be renewed for periods of up to
35 three years upon a determination by the department that
36 a contract is successful.

37 (d) The department shall periodically evaluate each
38 fee-for-service managed care program through an
39 independent assessment as required under the
40 department's approved federal waiver request to



1 determine if the program is successfully providing quality
2 health care while not placing the Medi-Cal program or
3 counties at additional financial risk. The assessment shall
4 evaluate quality of care, access, the provision of
5 preventive health care, and costs. The department shall
6 terminate a contract when the department finds that the
7 fee-for-service managed care program is unsuccessful.

8 (e) In order to ensure maximum cost-effectiveness,
9 the Legislature hereby determines that an expedited
10 contract process for contracts entered into under this
11 section between the department and the counties is
12 necessary. Therefore, contracts under this article shall be
13 exempt from Chapter 2 (commencing with Section
14 10290) of Part 2 of Division 2 of the Public Contract Code.
15 ~~Contracts shall have no force or effect unless approved by~~
16 ~~the Department of Finance.~~

17 (f) Fee-for-service managed care program contractors
18 shall ensure broad participation of primary care and other
19 providers, including specialists, safety net and traditional
20 Medi-Cal providers, in the program and shall contract
21 with any primary care provider that agrees to provide
22 services in accord with the same terms and conditions
23 that the fee-for-service managed care program
24 contractor requires of other primary care providers. To
25 the extent possible, the fee-for-service managed care
26 program contractor shall contract with primary care
27 providers in a manner that minimizes the disruption of
28 existing relationships between Medi-Cal eligible
29 residents and their primary care providers.

30 (g) Medi-Cal eligible county residents in the aid codes
31 designated by the director shall be informed about the
32 fee-for-service managed care program through the
33 health care options process established by the
34 department in each county in which the program is
35 operated consistent with the health care options process
36 authorized in other Medi-Cal managed care counties
37 designated by the director.

38 (h) Designated Medi-Cal residents shall have the right
39 to select a primary care provider from among the primary
40 care providers contracting with the fee-for-service



1 managed care program contractor and to change
2 primary care providers. Covered Medi-Cal residents shall
3 be informed of this right and the selection and change
4 processes through the health care options process
5 established in the county by the department consistent
6 with the health care options process authorized in other
7 Medi-Cal managed care counties designated by the
8 director. The fee-for-service managed care program
9 contractor shall also include this information in its
10 membership materials.

11 (i) The board of supervisors of each county
12 participating in the project authorized by this section
13 shall establish or cause to be established an advisory
14 committee comprised of county, physician, hospital,
15 clinic, and beneficiary representatives to advise the
16 county on the implementation and operation of the
17 project provided for under this section.

18 (j) The department may adopt regulations to
19 implement this section in accordance with the
20 Administrative Procedure Act, Chapter 3.5
21 (commencing with Section 11340) of Part 1 of Division 3
22 of Title 2 of the Government Code. The initial adoption
23 of any emergency regulations implementing this section
24 shall be deemed to be an emergency and necessary for
25 the immediate preservation of the public peace, health
26 and safety, or general welfare. Initial emergency
27 regulations adopted pursuant to this subdivision shall
28 remain in effect for no more than 120 days.

29 *SEC. 4. Section 14087.55 of the Welfare and*
30 *Institutions Code is amended to read:*

31 14087.55. (a) The department shall enter into
32 contracts with counties under this article, and shall be
33 bound by the rates, terms, and conditions negotiated by
34 the negotiator.

35 (b) In implementing this article, the department may
36 enter into contracts for the provision of essential
37 administrative and other services.

38 (c) Contracts under this article may be on a nonbid
39 basis and shall be exempt from the provisions of Chapter
40 2 (commencing with Section 10290) of Part 2 of the Public



1 Contract Code. ~~Contracts shall have no force and effect~~
2 ~~unless approved by the Department of Finance.~~

3 *SEC. 5. Section 14088.18 of the Welfare and*
4 *Institutions Code is amended to read:*

5 14088.18. (a) In order to increase the number of
6 nonprofit providers under this article, the department
7 ~~with the approval of the Department of Finance~~ may
8 enter into contracts each fiscal year under this section
9 with eligible nonprofit organizations to provide a
10 one-time interest-bearing loan, repayable at the Pooled
11 Money Investment Account rate, to that eligible
12 organization.

13 (b) Contracts entered into pursuant to this section
14 shall be limited to contracts within those counties where
15 the department does not have contracts authorized by
16 this article on the effective date of this section.

17 (c) Any loan entered into pursuant to this section shall
18 not exceed one hundred thousand dollars (\$100,000).

19 (d) The department shall adopt standards and
20 procedures for loan applications and repayment of the
21 loans made pursuant to this section.

22 (e) The department shall make no loan pursuant to
23 this section until the department has made savings
24 payments to contractors who have entered into contracts
25 under this article on or before the effective date of this
26 section.

27 (f) For purposes of this section, “eligible nonprofit
28 organization” means any organization which meets all of
29 the following requirements:

30 (1) The organization is exempt from taxation under
31 Section 501(c)(3) or 501(c)(25)(C)(iii) of the federal
32 Internal Revenue Code.

33 (2) The organization is organized to provide health
34 care to the medically underserved and to provide services
35 in service areas.

36 *SEC. 6. Section 14088.6 of the Welfare and Institutions*
37 *Code is amended to read:*

38 14088.6. In order to achieve maximum cost savings,
39 the Legislature hereby determines that an expedited
40 contract process for contracts under this article is



1 necessary. Therefore, contracts under this article may be
 2 on a nonbid basis and shall be exempt from the provisions
 3 of Chapter 2 (commencing with Section 10290) of Part 2
 4 of Division 2 of the Public Contract Code. ~~Contracts shall~~
 5 ~~have no force and effect unless approved by the~~
 6 ~~Department of Finance.~~

7 *SEC. 7. Section 14089 of the Welfare and Institutions*
 8 *Code is amended to read:*

9 14089. (a) The purpose of this article is to provide a
 10 comprehensive program of managed health care plan
 11 services to Medi-Cal recipients residing in clearly defined
 12 geographical areas. It is, further, the purpose of this
 13 article to create maximum accessibility to health care
 14 services by permitting Medi-Cal recipients the option of
 15 choosing from among two or more managed health care
 16 plans or fee-for-service managed care arrangements,
 17 including, but not limited to, health maintenance
 18 organizations, prepaid health plans, primary care case
 19 management plans. Independent practice associations,
 20 health insurance carriers, private foundations, and
 21 university medical centers systems, not-for-profit clinics,
 22 and other primary care providers, may be offered as
 23 choices to Medi-Cal recipients under this article if they
 24 are organized and operated as managed care plans, for
 25 the provision of preventive managed health care plan
 26 services.

27 (b) The negotiator may seek proposals and then shall
 28 contract based on relative costs, extent of coverage
 29 offered, quality of health services to be provided,
 30 financial stability of the health care plan or carrier,
 31 recipient access to services, cost-containment strategies,
 32 peer and community participation in quality control,
 33 emphasis on preventive and managed health care
 34 services and the ability of the health plan to meet all
 35 requirements for both of the following:

36 (1) Certification, where legally required, by the
 37 Commissioner of Corporations and the Insurance
 38 Commissioner.

39 (2) Compliance with all of the following:



1 (A) The health plan shall satisfy all applicable state and
2 federal legal requirements for participation as a Medi-Cal
3 managed care contractor.

4 (B) The health plan shall meet any standards
5 established by the department for the implementation of
6 this article.

7 (C) The health plan receives the approval of the
8 department to participate in the pilot project under this
9 article.

10 (c) (1) (A) The proposals shall be for the provision of
11 preventive and managed health care services to specified
12 eligible populations on a capitated, prepaid or
13 postpayment basis.

14 (B) Enrollment in a Medi-Cal managed health care
15 plan under this article shall be voluntary for beneficiaries
16 eligible for the federal Supplemental Security Income for
17 the Aged, Blind, and Disabled Program (Subchapter 16
18 (commencing with Section 1381) of Chapter 7 of Title 42
19 of the United States Code).

20 (2) The cost of each program established under this
21 section shall not exceed the total amount which the
22 department estimates it would pay for all services and
23 requirements within the same geographic area under the
24 fee-for-service Medi-Cal program.

25 (d) The department shall enter into contracts
26 pursuant to this article, and shall be bound by the rates,
27 terms, and conditions negotiated by the negotiator.

28 (e) (1) An eligible beneficiary shall be entitled to
29 enroll in any health care plan contracted for pursuant to
30 this article that is in effect for the geographic area in
31 which he or she resides. Enrollment shall be for a
32 minimum of six months. Contracts entered into pursuant
33 to this article shall be for at least one but no more than
34 three years. The director shall make available to
35 recipients information summarizing the benefits and
36 limitations of each health care plan available pursuant to
37 this section in the geographic area in which the recipient
38 resides.

39 (2) No later than 30 days following the date a Medi-Cal
40 or AFDC recipient is informed of the health care options



1 described in paragraph (1) of subdivision (e), the
2 recipient shall indicate his or her choice in writing of one
3 of the available health care plans and his or her choice of
4 primary care provider or clinic contracting with the
5 selected health care plan.

6 (3) The health care options information described in
7 paragraph (1) of subdivision (e) shall include the
8 following elements:

9 (A) Each beneficiary or eligible applicant shall be
10 provided with the name, address, and telephone number
11 of each primary care provider, by specialty, or clinic
12 participating in each health care plan. The name, address,
13 and telephone number of each specialist participating in
14 each health care plan shall be made available by
15 contacting the health care options contractor or the
16 health care plan.

17 (B) Each beneficiary or eligible applicant shall be
18 informed that he or she may choose to continue an
19 established patient-provider relationship in a managed
20 care option, if his or her treating provider is a primary
21 care provider contracting with any of the health plans
22 available and has the available capacity and agrees to
23 continue to treat that beneficiary or eligible applicant.

24 (C) Each beneficiary or eligible applicant shall be
25 informed that if he or she fails to make a choice, he or she
26 shall be assigned to, and enrolled in, a health care plan.

27 (4) At the time the beneficiary or eligible applicant
28 selects a health care plan, the department shall, when
29 applicable, encourage the beneficiary or eligible
30 applicant to also indicate, in writing, his or her choice of
31 primary care provider contracting with the selected
32 health care plan.

33 (5) Commencing with the implementation of a
34 geographic managed care project in a designated county,
35 a Medi-Cal or AFDC beneficiary who does not make a
36 choice of health care plans in accordance with paragraph
37 (2), shall be assigned to and enrolled in an appropriate
38 health care plan providing service within the area in
39 which the beneficiary resides.



1 (6) If a beneficiary or eligible applicant does not
2 choose a primary care provider or clinic, or does not select
3 any primary care provider who is available, the health
4 care plan selected by or assigned to the beneficiary shall
5 ensure that the beneficiary selects a primary care
6 provider or clinic within 30 days after enrollment or is
7 assigned to a primary care provider within 40 days after
8 enrollment.

9 (7) Any Medi-Cal or AFDC beneficiary dissatisfied
10 with the primary care provider or health care plan shall
11 be allowed to select or be assigned to another primary
12 care provider within the same health care plan. In
13 addition, the beneficiary shall be allowed to select or be
14 assigned to another health care plan contracted for
15 pursuant to this article that is in effect for the geographic
16 area in which he or she resides in accordance with Section
17 1903(m)(2)(F)(ii) of the Social Security Act.

18 (8) The department or its contractor shall notify a
19 health care plan when it has been selected by or assigned
20 to a beneficiary. The health care plan that has been
21 selected or assigned by a beneficiary shall notify the
22 primary care provider that has been selected or assigned.
23 The health care plan shall also notify the beneficiary of
24 the health care plan and primary care provider selected
25 or assigned.

26 (9) This section shall be implemented in a manner
27 consistent with any federal waiver that is required to be
28 obtained by the department to implement this section.

29 (f) A participating county may include within the plan
30 or plans providing coverage pursuant to this section,
31 employees of county government, and others who reside
32 in the geographic area and who depend upon county
33 funds for all or part of their health care costs.

34 (g) The negotiator and the department shall establish
35 pilot projects to test the cost-effectiveness of delivering
36 benefits as defined in subdivisions (a) through (f).

37 (h) The California Medical Assistance Commission
38 shall evaluate the cost-effectiveness of these pilot projects
39 after one year of implementation. Pursuant to this



1 evaluation the commission may either terminate or
2 retain the existing pilot projects.

3 (i) Funds may be provided to prospective contractors
4 to assist in the design, development, and installation of
5 appropriate programs. The award of these funds shall be
6 based on criteria established by the department.

7 (j) In implementing this article, the department may
8 enter into contracts for the provision of essential
9 administrative and other services. Contracts entered into
10 under this subdivision may be on a noncompetitive bid
11 basis and shall be exempt from Chapter 2 (commencing
12 with Section 10290) of Part 2 of Division 2 of the Public
13 Contract Code. ~~These contracts shall have no force and
14 effect unless approved by the Department of Finance.~~

15 *SEC. 8. Section 14089.8 of the Welfare and Institutions*
16 *Code is amended to read:*

17 14089.8. (a) In order to achieve maximum cost
18 savings, the Legislature finds and declares that an
19 expedited contract process for contracts under this article
20 is necessary.

21 (b) Contracts under this article shall be on a nonbid
22 basis, and shall be exempt from Chapter 2 (commencing
23 with Section 10290) of Part 2 of Division 2 of the Public
24 Contract Code.

25 ~~(c) Contracts subject to this section shall have no force
26 and effect unless approved by the Department of
27 Finance.~~

28 *SEC. 9. Section 14139.13 of the Welfare and*
29 *Institutions Code is amended to read:*

30 14139.13. (a) Any contract entered into pursuant to
31 this article may be renewed if the long-term care services
32 agency continues to meet the requirements of this article
33 and the contract. Failure to meet these requirements
34 shall be cause for nonrenewal of the contract. The
35 department may condition renewal on timely completion
36 of a mutually agreed upon plan of corrections of any
37 deficiencies.

38 (b) The department may terminate or decline to
39 renew a contract in whole or in part when the director
40 determines that the action is necessary to protect the



1 health of the beneficiaries or the funds appropriated to
2 the Medi-Cal program. The administrative hearing
3 requirements of Section 14123 do not apply to the
4 nonrenewal or termination of a contract under this
5 article.

6 (c) In order to achieve maximum cost savings the
7 Legislature hereby determines that an expedited
8 contract process for contracts under this article is
9 necessary. Therefore, contracts under this article shall be
10 exempt from Chapter 2 (commencing with Section
11 10290) of Part 2 of Division 2 of the Public Contract Code.
12 ~~The contracts shall not take effect unless they are~~
13 ~~approved by the Department of Finance.~~

14 (d) The Commissioner of Corporations shall, at the
15 director's request, immediately grant an exemption from
16 Chapter 2.2 (commencing with Section 1340) of Division
17 2 of the Health and Safety Code for purposes of carrying
18 out any contract entered into pursuant to this article.

19 *SEC. 10. Section 14204 of the Welfare and Institutions*
20 *Code is amended to read:*

21 14204. (a) Pursuant to the provisions of this chapter,
22 the department may contract with one or more prepaid
23 health plans in order to provide the benefits authorized
24 under this chapter and Chapter 7 (commencing with
25 Section 14000) of this part. The department may contract
26 with one or more children's hospitals on an exclusive basis
27 for a specified population in a specified geographic area.
28 Contracts entered into pursuant to this chapter may be
29 awarded on a bid or nonbid basis.

30 (b) In order to achieve maximum cost savings the
31 Legislature hereby determines that expedited contract
32 process for contracts under this chapter is necessary.
33 Therefore, contracts under this chapter shall be exempt
34 from Chapter 2 (commencing with Section 10290) of Part
35 2 of Division 2 of the Public Contract Code. ~~Contracts~~
36 ~~shall have no force and effect unless approved by the~~
37 ~~Department of Finance.~~

38 *SEC. 11. Section 14499.5 of the Welfare and*
39 *Institutions Code is amended to read:*



1 14499.5. (a) (1) In carrying out the intent of this
2 article, the director shall contract for the operation of one
3 local pilot program. Special consideration shall be given
4 to approving a program contracted through county
5 government in Santa Barbara County.

6 (2) Notwithstanding the limitations contained in
7 Section 14490, the director may enter into, or extend,
8 contracts with the local pilot program in Santa Barbara
9 County pursuant to paragraph (1) for periods that do not
10 exceed three years.

11 (b) The establishment of a pilot program pursuant to
12 this section shall be contingent upon the availability of
13 state and federal funding. The program shall include the
14 following components:

15 (1) Local authority for administration, fiscal
16 management, and delivery of services, but not including
17 eligibility determination.

18 (2) Physician case management.

19 (3) Cost containment through provider incentives
20 and other means.

21 (c) The program for the pilot project shall include a
22 plan and budget for delivery of services, administration,
23 and evaluation. During the first year of the pilot program,
24 the amount of the state contract shall equal 95 percent of
25 total projected Medi-Cal expenditures for delivery of
26 services and for administration based on fee-for-service
27 conditions in the program county. During the remaining
28 years of the pilot project Medi-Cal expenditures in the
29 program county shall be no more than 100 percent of total
30 projected expenditures for delivery of services and for
31 administration based on any combination of the following
32 paragraphs:

33 (1) Relevant prior fee-for-service Medi-Cal
34 experience in the program county.

35 (2) The fee-for-service Medi-Cal experience in
36 comparable counties or groups of counties.

37 (3) Medi-Cal experience of the pilot project in the
38 program county if, as determined by the department, the
39 scope, level, and duration of, and expenditures for, any
40 services used in setting the rates under this paragraph



1 would be comparable to fee-for-service conditions were
2 they to exist in the program county and would be more
3 actuarially reliable for use in ratesetting than data
4 available for use in applying paragraph (1) or (2).

5 The projected total expenditure shall be determined
6 annually according to an acceptable actuarial process.
7 The data elements used by the department shall be
8 shared with the proposed contractor.

9 (d) The director shall accept or reject the proposal
10 within 30 days after the date of receipt. If a decision is
11 made to reject the proposal, the director shall set forth the
12 reasons for this decision in writing. Upon approval of the
13 proposal, a contract shall be written within 60 days. After
14 signature by the local contractor, the State Department
15 of Health Services, *and* the Department of General
16 Services, ~~and the Department of Finance~~ shall execute
17 the contract within 60 days.

18 (e) The director shall seek the necessary state and
19 federal waivers to enable operation of the program. If the
20 federal waivers for delivery of services under this plan are
21 not granted, the department is under no obligation to
22 contract for implementation of the program.

23 (f) For purposes of Section 1343 of the Health and
24 Safety Code, the Santa Barbara Regional Health
25 Authority shall be considered to be a county-operated
26 pilot program contracting with the State Department of
27 Health Services pursuant to this article, and
28 notwithstanding any other provision of law, during the
29 period that this contract is in effect, the contractor shall
30 be exempt from the provisions of the Knox-Keene Health
31 Care Service Plan Act of 1975, Chapter 2.2 (commencing
32 with Section 1340) of Division 2 of the Health and Safety
33 Code, relative to the services provided to Medi-Cal
34 beneficiaries under the terms and provisions of the pilot
35 program.

36 (g) Dental services may be included within the
37 services provided in this pilot program.

38 (h) Any federal demonstration funding for this pilot
39 program shall be made available to the county within 60
40 days upon notification of the award without the state



1 retaining any portion not previously specified in the grant
2 application as submitted.

3 (i) (1) (A) Commencing January 1, 1996, the
4 California Medical Assistance Commission may negotiate
5 exclusive contracts and rates on behalf of the department
6 with the Santa Barbara Regional Health Authority in the
7 implementation of this section.

8 (B) Contracts entered into under this article may be
9 on a noncompetitive bid basis and shall be exempt from
10 Chapter 2 (commencing with Section 10290) of Part 2 of
11 Division 2 of the Public Contract Code. These contracts
12 shall have no force or effect unless approved by the
13 Department of Finance.

14 (C) The department shall enter into contracts
15 pursuant to this article, and shall be bound by the terms
16 and conditions related to the rates negotiated by the
17 negotiator.

18 (2) The department shall implement this subdivision
19 to the extent that the following apply:

20 (A) Its implementation does not revise the status of
21 the pilot program as a federal demonstration project.

22 (B) Existing federal waivers apply to the pilot
23 program as revised by this subdivision, or the federal
24 government extends the applicability of the existing
25 federal waivers or authorizes additional federal waivers
26 for the implementation of the program.

27 (3) The implementation of this subdivision shall not
28 affect the pilot program's having met any of the
29 requirements of Part 3.5 (commencing with Section
30 1175) of Division 1 of the Health and Safety Code and this
31 division applicable to the pilot program with respect to
32 the negotiations of contracts and rates by the
33 department.

34 (j) An independent evaluation of the program shall
35 be conducted and a report submitted to the Legislature
36 and the director by January 1, 1988. The independent
37 evaluation of the program commissioned by the federal
38 Health Care Financing Administration may fulfill the
39 purposes of this part. This evaluation and report shall
40 include, but is not limited to, the following:



1 (1) An assessment of the cost of medical services as
2 compared to the cost of the existing Medi-Cal
3 fee-for-service delivery mode.

4 (2) An assessment of utilization levels of specialist and
5 emergency services.

6 (3) An assessment of the quality of care.

7 (4) Recommendations for future policy on delivery of
8 services.

9 *SEC. 12. Section 14594 of the Welfare and Institutions*
10 *Code is amended to read:*

11 14594. Contracts under this chapter may be on a
12 nonbid basis and shall be exempt from Chapter 2
13 (commencing with Section 10290) of Part 2 of Division 2
14 of the Public Contract Code. ~~Contracts under this~~
15 ~~chapter shall have no force and effect unless approved by~~
16 ~~the Department of Finance.~~

