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## TEXT OF PROPOSED REGULATIONS

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1 TEXT OF PROPOSED CHANGES  
2 TO THE REGULATIONS UNDER THE  
3 KNOX-KEENE HEALTH CARE SERVICE PLAN ACT OF 1975

4 1. Adopt Subarticle 2 (commencing with Section 1300.75.4) to Article 9 of

5 Subchapter 5.5 of Chapter 3 of Title 10, California Code of Regulations, to read:

6  
7 **Subarticle 2: Risk-Bearing Organizations**

8  
9 **1300.75.4. Definitions.**

10 (a) As used in this subarticle:

11 (1) "External party" means the Department of Managed Health Care or its designated  
12 agent, which may be an outside entity or person contracted or appointed to fulfill the functions  
13 stated in these regulations. Whenever these regulations reference the Department of Managed  
14 Health Care, that reference means the Department of Managed Health Care or its designated  
15 agent, which may be an outside entity or person contracted by the Department of Managed  
16 Health Care to fulfill the stated function.

17 (2) "Organization" means a risk-bearing organization as defined in subdivision (g) of  
18 Section 1375.4 of the Code.

19 (3) "Risk arrangement" shall include both "risk-sharing arrangement" and "risk-  
20 shifting arrangement," which are defined as follows:

21 (A) "Risk-sharing arrangement" means any compensation arrangement  
22 between an organization and a plan under which both the organization and the plan share a risk  
23 of financial loss.

24 (B) "Risk-shifting arrangement" means a contractual arrangement between an

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1 organization and a plan under which the plan pays the organization on a fixed, periodic or  
2 capitated basis, and the financial risk for the cost of services provided pursuant to the  
3 arrangement is assumed by the organization.

4 (b) For purposes of subdivision (g) of Section 1375.4, the term "lawfully organized  
5 group of physicians" means a medical group, independent practice association, or other entity  
6 that delivers, furnishes, or otherwise arranges or provides health care services, but excluding an  
7 individual or plan, and excluding any entity barred from the practice of medicine by California  
8 Business & Professions Code Section 2400 or a successor provision to California Business &  
9 Professions Code Section 2400.

10 NOTE: Authority cited: Sections 1344 and 1375.4, Health and Safety Code. Reference:  
11 Section 1375.4, Health and Safety Code.

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13 **1300.75.4.1. Risk Arrangement Disclosure.**

14 (a) Every contract involving a risk arrangement between a plan and an organization  
15 shall require the plan to do all of the following:

16 (1) Disclose through electronic transmission (or in writing, if agreeable to both the  
17 organization and the plan) to the organization, on a monthly basis, beginning with the month of  
18 May, 2001, within 10 calendar days of the beginning of each report month, the following  
19 information for each enrollee assigned to the organization: member identification number, name,  
20 birth date, gender, address, plan contract selected, employer group identification, any other third  
21 party coverage, if known to the health plan, enrollment/disenrollment dates, medical group/IPA  
22 number, provider effective date, type of change to coverage, co-payment, deductible, the amount  
23 of capitation to be paid per enrollee per month, and the primary care physician when the  
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1 selection of a primary care physician is required by the plan.

2 (2) Disclose through electronic transmission (or in writing, if agreeable to both the  
3 organization and the plan) to the organization, on a monthly basis, beginning with the month of  
4 May, 2001, within 10 calendar days of the beginning of each report month, the names, member  
5 identification numbers, and total numbers of enrollees added or terminated under each benefit  
6 plan contract served by the organization.

7 (3) Disclose, as part of the contract with the organization, for the purpose of assisting  
8 the organization to be informed regarding the financial risk assumed under the contract, the  
9 following information for each and every type of risk arrangement (Medicare+Choice, Medi-Cal,  
10 traditional commercial, Point of Service, small group, and individual plans) under the contract:

11 (A) a matrix of responsibility for medical expenses (physician, institutional,  
12 ancillary, and pharmacy) which will be allocated to the organization, facility, or the plan under  
13 the risk arrangement;

14 (B) expected/projected utilization rates and unit costs for each major expense  
15 service group (inpatient, outpatient, primary care physician, specialist, pharmacy, home health,  
16 durable medical equipment (DME), ambulance and other), the source of the data and the  
17 actuarial methods employed in determining the utilization rates and unit costs by benefit plan  
18 type for the type of risk arrangement; and

19 (C) all factors used to adjust payments or risk-sharing targets, including but not  
20 limited to the following: age, sex, localized geographic area, family size, experience rated, and  
21 benefit plan design, including copayment/deductible levels.

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1 (4) Beginning with the first quarter of calendar year 2001, disclose through electronic  
2 transmission (or in writing, if agreeable to both the organization and the plan) to the  
3 organization, on a quarterly basis, within 45 calendar days of the close of each quarter, a detailed  
4 description of each and every amount (including expenses and income) allocated to the  
5 organization and to the plan under each and every risk-sharing arrangement.

6 (5) Provide payments of all risk arrangements, excluding capitation, no later than 180  
7 days after the close of the organization's contract year, or the contract termination date,  
8 whichever occurs first.

9 (b) In addition to the disclosures required by subsection (a) of this rule, every contract  
10 involving a risk-sharing arrangement between a plan and an organization shall require the plan to  
11 disclose, as part of the contract, the amount of payment for each and every service to be provided  
12 under the contract, including any fee schedules or other factors or units used in determining the  
13 fees for each and every service. To the extent that reimbursement is made pursuant to a specified  
14 fee schedule, the contract shall incorporate that fee schedule by reference, including the year of  
15 the schedule. For any proprietary fee schedule, the contract must include sufficient detail that  
16 payment amounts related to that fee schedule can be accurately predicted.

17 (c) In addition to the disclosures required by subsection (a) of this rule, every contract  
18 involving a risk-shifting arrangement between a plan and an organization shall require the plan to  
19 disclose, as part of the contract, in the case of capitated payment, the amount to be paid per  
20 enrollee per month. For any deductions which the plan may take from any capitation payment,  
21 details sufficient to allow the organization to verify the accuracy and appropriateness of the  
22 deduction shall be provided.

23 NOTE: Authority cited: Sections 1344 and 1375.4, Health and Safety Code. Reference:  
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1 Section 1375.4, Health and Safety Code.

3 **1300.75.4.2. Organization Information**

4 Every contract involving a risk arrangement between a plan and an organization shall  
5 require the organization to do all of the following:

6 (a) For each quarter beginning on or after January 1, 2001, (for an organization that  
7 begins its fiscal quarter on January 1, 2001, the first submission is due by May 15, 2001), submit  
8 to the Department of Managed Health Care or its designated agent, in a form and manner  
9 determined by the Department, not more than forty-five (45) days after the close of each quarter  
10 of the fiscal year, a quarterly status report containing all of the following:

11 (1) Financial statements (including at least a balance sheet, an income statement, and  
12 a statement of cash flows), or comparable financial statements in the case of a nonprofit entity,  
13 for the immediately preceding quarter prepared in accordance with generally accepted  
14 accounting principles (GAAP).

15 (2) A statement as to what percentage of claims have been reimbursed, contested, or  
16 denied during that quarter by the organization within 45 working days, and in accordance with  
17 the other requirements of California Health and Safety Code Sections 1371 and 1371.35, and in  
18 accordance with any other applicable state and federal laws and regulations. If less than 95% of  
19 all claims have been reimbursed, contested or denied on a timely basis, the statement shall be  
20 accompanied by a report that describes the reasons why the claims-paying process is not meeting  
21 the requirements of applicable law, any action taken to correct the deficiency, and any results of  
22 that action.

23 (3) A statement as to whether or not the organization has estimated and documented,

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1 on a monthly basis, its liability for incurred but not reported (IBNR) claims, pursuant to a  
2 method specified in Rule 1300.77.2, and that these estimates are the basis for the financial  
3 statements submitted under these Rules. If the estimated and documented liability has not met  
4 the requirements of Rule 1300.77.2 in any way, the statement shall be accompanied by a report  
5 that describes in detail the following with respect to each deficiency: the nature of the deficiency,  
6 the reasons for the deficiency, any action taken to correct the deficiency, and any results of that  
7 action.

8 (4) (A) A statement as to whether or not the organization (i) has at all times during  
9 the quarter maintained a positive tangible net equity ("TNE"), as defined in Rule 1300.76(e); and  
10 (ii) has at all times during the quarter maintained a positive level of working capital, calculated  
11 in a manner consistent with generally accepted accounting principles (GAAP). If either the  
12 required TNE or the required working capital has not been maintained at all times, the statement  
13 shall be accompanied by a report that describes in detail the following with respect to each  
14 deficiency: the nature of the deficiency, the reasons for the deficiency, any action taken to  
15 correct the deficiency, and any results of that action.

16 (B) The organization may reduce its liabilities for purposes of calculating its  
17 tangible net equity and working capital in a manner allowed by Health and Safety Code Section  
18 1375.4(b)(1)(B). For purposes of Health and Safety Code Section 1375.4(b)(1)(B), a sponsoring  
19 organization shall have a tangible net equity of at least twice the total of all amounts that it has  
20 guaranteed to all persons or entities, or a tangible net equity in an amount approved by the  
21 Director of the Department of Managed Health Care.

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1           (5) A written verification attached to each report made under paragraphs (1), (2), (3)  
2 and (4) of this subsection stating that the report is true and correct to the best knowledge and  
3 belief of a principal officer of the organization, and signed by a principal officer, as defined by  
4 regulation 1300.45 (o) of Title 10 of the California Code of Regulations.

5           (b) (1) If the organization served at least 10,000 lives under all risk arrangements  
6 as of December 31, 2000, submit to the Department of Managed Health Care or its designated  
7 agent, in a form and manner determined by the Department, not more than one hundred eighty  
8 (180 days) after the close of the organization's fiscal year beginning in year 2000, and,  
9 regardless of the number of lives served under all risk arrangements, submit to the Department  
10 not more than one hundred twenty (120) days after the close of the organization's fiscal year  
11 beginning on or after January 1, 2001, and not more than one hundred twenty (120) days after  
12 the close of each of the organization's subsequent fiscal years, an audit report prepared by an  
13 independent certified public accountant in accordance with generally accepted auditing standards  
14 (or governmental auditing standards in the case of a public entity), containing all of the  
15 following:

16           (A) Audited financial statements (including at least a balance sheet, an income  
17 statement, a statement of cash flows, and footnote disclosures), or comparable financial  
18 statements in the case of a nonprofit entity, for the immediately preceding fiscal year, prepared  
19 by the independent certified public accountant in accordance with generally accepted accounting  
20 principles (GAAP). For purposes of determining the independence of the certified public  
21 accountant, the regulations of the California State Board of Accountancy (Division 1, Sections 1  
22 through 99.2, Title 16, California Code of Regulations), shall apply.



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1           (B) An opinion of the accountant indicating that the financial statements  
2 submitted to the Department present fairly, in all material respects, the financial position of the  
3 organization, and that the financial statements were prepared in accordance with generally  
4 accepted accounting principles (GAAP).

5           (2) If the organization served fewer than 10,000 lives under all risk  
6 arrangements as of December 31, 2000, submit to the Department of Managed Health Care or its  
7 designated agent, in a form and manner determined by the Department, not more than one  
8 hundred eighty (180 days) after the close of the organization's fiscal year beginning in year  
9 2000, an accountant's report on a review including a statement of limited assurance that the  
10 financial statements are in accordance with generally accepted accounting principles (GAAP) or  
11 some other comprehensive basis of accounting. The accountant's report on a review must cover  
12 all of the following:

13           (A) Reviewed financial statements (including at least a balance sheet, an  
14 income statement, a statement of cash flows, and footnote disclosures), or comparable financial  
15 statements in the case of a nonprofit entity, for the immediately preceding fiscal year, prepared  
16 by the independent certified public accountant in accordance with generally accepted accounting  
17 principles (GAAP) or some other comprehensive basis of accounting. For purposes of  
18 determining the independence of the certified public accountant, the regulations of the California  
19 State Board of Accountancy (Division 1, Sections 1 through 99.2, Title 16, California Code of  
20 Regulations), shall apply.

21           (B) An opinion of the accountant indicating limited assurance that the  
22 financial statements submitted to the Department were prepared in accordance with generally  
23 accepted accounting principles (GAAP) or some other comprehensive basis of accounting.  
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1 (c) Submit to the Department of Managed Health Care or its designated agent, in a form  
2 and manner to be determined by the Department, a "Statement of Organization," to be filed with  
3 the organization's initial quarterly filing, and with each annual filing made in subsequent years,  
4 which shall include the following information, as of December 31 of each calendar year prior to  
5 the filing:

6 (1) Name and Address of the Organization;

7 (2) Contact Person, with Title, Address, Phone, Fax, and e-mail address;

8 (3) A list of all Health Plans with which the organization has risk arrangements;

9 (4) Whether the Organization is an Independent Practice Association (IPA), Medical  
10 Group, Foundation, other entity, or some combination;

11 (5) Whether the Organization is a professional corporation, partnership, not-for-profit  
12 corporation, sole proprietor, or other form of business;

13 (6) A matrix listing all major categories of medical care offered by the organization,  
14 including but not limited to, primary care, cardiology, orthopedics, ophthalmology, oncology,  
15 and radiology, and next to each listed category in the matrix, a disclosure of the compensation  
16 model (salary, fee-for-service, capitation, other) used by the organization to compensate the  
17 majority of providers of that category of care;

18 (7) An approximation of the Number of Enrollees served by the Organization under a  
19 risk arrangement, pursuant to a list of ranges developed by the Department;

20 (8) Any Management Services Organization (MSO) that the organization contracts  
21 with for administrative services;

22 (9) Number of in-network contracted Physicians in the organization;

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1           (10) Disclosure by California County or Counties of the Organization's primary  
2 service area (excluding out-of-area tertiary facilities and providers);

3           (11) Any other information which the Director deems reasonable and necessary.

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5           (d) Notify the Department of Managed Health Care or its designated agent no later  
6 than five (5) business days from discovering that the organization has experienced any event  
7 which materially alters its financial situation, or threatens its solvency.

8           (e) Permit the Department of Managed Health Care or its designated agent to make  
9 any examination that it deems reasonable and necessary to implement Section 1375.4 of the  
10 Health and Safety Code, and provide to the Department, upon request, any books or records that  
11 the Department deems relevant for inspection and copying.

12           NOTE: Authority cited: Sections 1344 and 1375.4, Health and Safety Code. Reference:  
13 Section 1375.4, Health and Safety Code.

14  
15 **1300.75.4.3. Plan Reporting.**

16           (a) Every plan that contracts with an organization shall, by May 15, 2001, for the first  
17 quarter of calendar year 2001, and not more than forty-five (45) days after the close of each  
18 subsequent quarter, submit a report to the Director, in a form and manner determined by the  
19 Department of Managed Health Care, listing all its contracting organizations including their  
20 names, addresses, contact persons, telephone numbers, and number of enrollees assigned to the  
21 organization as of the last day of the quarter being reported.

22           (b) For the quarterly report due May 15, 2001, and for the report due within 45 days after  
23 the close of the first quarter of each subsequent year (i.e., an annual reporting period), every plan

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1 must provide to the Director, in a form and manner determined by the Department of Managed  
2 Health Care, the following information, as of December 31 of the prior calendar year, for each  
3 organization with which the plan has a risk arrangement:

4 (1) For the plan's commercial, Medicare+Choice, and Medi-Cal product lines, the  
5 report shall disclose, in a separate matrix for each product line, the allocation of risk between the  
6 plan, the organization, and the facility by major expense category. For each of the plan's  
7 commercial, Medicare+Choice, and Medi-Cal product lines, the report shall disclose the number  
8 of covered lives.

9 (2) The report shall disclose whether the plan provides stop-loss insurance to the  
10 organization, and if so, the nature of any and all stop-loss arrangements.

11 (c) Each report or matrix submitted to the Department shall include a written  
12 verification stating that the report or matrix is true and correct to the best knowledge and belief  
13 of a principal officer of the plan, and signed by a principal officer, as defined by regulation  
14 1300.45 (o) of Title 10 of the California Code of Regulations.

15 (d) Upon request, the plan shall provide any additional information that the Director  
16 may from time to time require to understand the type, amount, or appropriateness, of the  
17 financial risk assumed by the plan's organizations.

18 (e) Every plan that contracts with an organization shall have adequate procedures in  
19 place to ensure that the plan notifies the Department of Managed Health Care or its designated  
20 agent no later than five (5) business days from discovering that any of its organizations  
21 experienced any event which materially alters the organization's financial situation, or threatens  
22 its solvency.

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1 NOTE: Authority cited: Sections 1344 and 1375.4, Health and Safety Code. Reference:  
2 Section 1375.4, Health and Safety Code.

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4 **1300.75.4.4. Confidentiality.**

5 The Director shall provide for the confidentiality of financial and other records to be  
6 produced, disclosed, or otherwise made available pursuant to Health and Safety Code Section  
7 1375.4, and to these regulations, unless the Director determines otherwise.

8 NOTE: Authority cited: Sections 1344, 1375.4(b)(7), and 1375.4, Health and Safety  
9 Code. Reference: Sections 1375.4 and 1375.4(b)(7), Health and Safety Code.

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11 **1300.75.4.5. Plan Compliance.**

12 Any failure of a plan to comply with the requirements of Section 1375.4 of the Code and  
13 any rules of this subarticle shall constitute grounds for disciplinary action against the plan. The  
14 Director may seek and employ any combination of remedies and enforcement procedures  
15 provided under the Act, to enforce Section 1375.4 of the Code and this subarticle.

16 NOTE: Authority cited: Sections 1344 and 1375.4, Health and Safety Code. Reference:  
17 Section 1375.4, Health and Safety Code.

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19 **1300.75.4.6. Department Costs.**

20 The Department's cost incurred in the administration of Section 1347.15 and 1375.4 of  
21 the Code shall come from amounts paid by plans, except specialized plans, pursuant to Section  
22 1356 of the Code.

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1 NOTE: Authority cited: Sections 1344 and 1375.4, Health and Safety Code. Reference:  
2 Sections 1374.15, 1356 and 1375.4, Health and Safety Code.

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