

STATE OF CALIFORNIA
DEPARTMENT OF INDUSTRIAL RELATIONS
DIVISION OF WORKERS' COMPENSATION

INITIAL STATEMENT OF REASONS

Subject Matter of Regulations: Health Care Organizations

Title 8, California Code of Regulations, Sections 9771, 9778, 9779, 9779.5, and 9779.9.

Section 9771	Application for Certification
Section 9778	Evaluation
Section 9779	Certification
Section 9779.5	Reimbursement of Costs to the Administrative Director; Obligation to Pay Share of Administrative Expense
Section 9779.9	Late Payment

BACKGROUND TO REGULATORY PROCEEDING:

Labor Code section 4600.3 establishes Health Care Organizations (“HCOs”), which are certified medical organizations that enable employers to manage the health care of injured employees in accordance with Labor Code section 4600.3 *et seq.* Labor Code sections 4600.5 and 4600.6 require the administrative director to develop a certification procedure for HCOs. Labor Code sections 4600.5 and 4600.7 require the Administrator Director to establish reasonable fees to cover the costs of HCO certification and administration.

Section Amended: Section 9771 - Application for Certification.

Section 9771 specifies the fees and information required in an application to the Administrative Director for certification as an HCO.

Specific Purpose of Amendments to Section 9771:

Labor Code section 4600.3 provides that an employer may use an HCO for the provision of medical treatment to injured employees. Labor Code section 4600.5 requires the administrative director to certify HCOs and to charge a reasonable fee for review of certification applications.

The purpose of the proposed amendment to subdivision (f) is to reduce the certification fee from \$20,000 to \$2,500 to reflect a more reasonable fee for review of applications for HCO certification. The purpose of the proposed amendment to subdivision (g)(1) is to reduce the certification fee for Health Care Service Plans licensed by the Knox-Keene Health Care Service Plan Act from \$10,000 to \$1,000 to reflect a more reasonable fee for review of applications for HCO certification.

Necessity:

The fee reduction from \$20,000 to \$2,500 reflects the reduced resources used to review HCO certification applications. The cost of reviewing HCO applications for certification has been reduced significantly due to increased staff efficiency. Moreover, the number of HCO

applications has declined, resulting in less staff time needed for certification review. Such a fee reduction is in compliance with the statutory mandates of Labor Code sections 4600.5 and 4600.7, which require that the fees are reasonably sufficient to cover the administrative costs incurred by the agency.

The fee reduction from \$10,000 to \$1,000 for full service health care service plans licensed under the Knox-Keene Health Care Service Plan Act reflects that these entities have already been reviewed and approved as health care service plans, and thus, their HCO applications require less information and less review time.

Section Amended: Section 9778 - Evaluation

This section lists the information required by the Workers' Compensation Information System (WCIS) as well as additional data to be collected for HCO evaluation purposes.

Specific Purpose of Amendments to Section 9778:

The purpose of amending subdivision (a)(1) is to avoid duplication of information now being collected electronically by the WCIS.

The purpose of adding subdivision (a)(2) and replacing subdivision (c)(2) is to clarify the annual deadline for the submission of the remaining, non-WCIS collected information to the Administrative Director.

The purpose of deleting subdivisions (b)(1) through (b)(10) and replacing the language in subdivision (b) is to avoid duplication of information now being collected electronically by WCIS.

The purpose of deleting subdivision (c)(1) and (c)(2) and replacing the language in subdivision (b) is to avoid duplication of information now being collected electronically by WCIS.

Necessity

These changes are necessary to eliminate duplicate filing of data now being collected electronically by WCIS. The remaining sections clarify what data must still be submitted to the Administrative Director for HCO evaluation purposes and the annual deadline for those submissions.

Section Amended: Section 9779 - Certification

Section 9779 specifies the length of HCO certification to be three years and defines what the certification includes. The section also requires recertification at the expiration of the certification period and states the fee for recertification.

Specific Purpose of Amendments to Section 9779;

Labor Code section 4600.5 requires the administrative director to certify HCOs and to charge a reasonable fee for certification review.

The purpose of the proposed amendment to subdivision (d) is to reduce the recertification fee from \$10,000 to \$1,000 to reflect a more reasonable fee for review.

Necessity:

The fee reduction from \$10,000 to \$1,000 reflects the reduced resources used in recertifying HCOs. Recertifications are not as time consuming as an initial application review, as the information provided for recertification is often the same as or similar to the approved application. The number of HCO recertifications have declined, resulting in lower HCO administrative costs. Such a reduction of the recertification fee also complies with the statutory mandates of Labor Code sections 4600.5 and 4600.7, which require that the fees are reasonably sufficient to cover the administrative costs incurred by the agency.

Section Amended: Section 9779.5 - Reimbursement of Costs to the Administrative Director; Obligation to Pay Share of Administrative Expense

Pursuant to Labor Code section 4600.7, section 9779.5 specifies additional fees to be submitted by certified HCOs to the Administrative Director to contribute to paying the costs of HCO administration but not to exceed the costs of administration. The section mandates an Annual Assessment fee per HCO enrollee, an annual general fund loan repayment surcharge to be paid for up to eight years, and imposes non-routine audit fees.

Specific Purpose of Amendments to Section 9779.5;

The purpose of the proposed amendment to subdivision (a)(1) is to reduce the annual assessment fee from \$1.00 per HCO enrollee to a three-tiered fee assessment system: \$250.00 for 0 to 1000 HCO enrollees, \$350 for 1001 to 5000 HCO enrollees, and \$500 for 5001 or more HCO enrollees.

The purpose of the proposed amendment to subdivision (a)(2) is to eliminate the general loan repayment surcharge as it is no longer necessary.

Necessity:

The annual enrollment fee is required by Labor Code 4600.7 but has been reduced to reflect lowered HCO administration costs, due to a decline in the number of HCO enrollees.

The five-year loan repayment surcharge period set forth in this section has passed and the general loan has been repaid, rendering the general loan fee surcharge unnecessary.

Section Amended: Section 9779.9 - Late Payment

Section 9779.9 imposes a late payment fee for failure to pay fees and assessments more than sixty days after the payment deadline.

Specific Purpose of Amendments to Section 9779.9:

The purpose of the proposed amendment is to eliminate the late payment fee.

Necessity:

The late payment fee has been eliminated as payment is no longer needed due to reduced HCO administrative costs. The existing fees adequately cover the administrative costs and the elimination of the late payment fee is in compliance with Labor Code sections 4600.5 and 4600.7, which require that the fees are reasonably sufficient to cover the administrative costs incurred by the agency.

TECHNICAL, THEORETICAL, OR EMPIRICAL STUDIES, REPORTS, OR DOCUMENTS RELIED UPON:

None. The Division did not rely upon any technical, theoretical, or empirical studies, reports, or documents in proposing the amendments to the regulations.

SPECIFIC TECHNOLOGIES OR EQUIPMENT:

The proposed regulations do not mandate the use of specific technologies or equipment.

REASONABLE ALTERNATIVES TO THE PROPOSED REGULATION AND REASONS FOR REJECTING THOSE ALTERNATIVES

The Administrative Director has not identified any effective alternative, or any equally effective and less burdensome alternative to the regulation at this time.

FACTS UPON WHICH THE AGENCY RELIES FOR ITS INITIAL DETERMINATION THAT THE REGULATIONS WILL NOT HAVE A SIGNIFICANT ADVERSE IMPACT ON BUSINESS

The Administrative Director has determined that the proposed regulations will not have a significant adverse impact on business. The regulations are expected to result in a savings for Health Care Organization applicants and may result in an increase in the number of HCO applications.

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