CALIFORNIA UPDATE

August 14, 2026

Welcome to America's Physician Groups' *California Update*. Each week APG reports the latest on health care happenings in the Golden State.

Here's what you'll find in this week's edition:

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DMHC Seeks Comment On Draft Downcoding Guidance

The Department of Managed Health Care (DMHC) has released a revised draft All Plan Letter (APL) addressing the implementation and use of **downcoding practices in health plan claims adjudication and payment processes**. The draft defines downcoding broadly to include practices by either a health plan **or its delegate** that modify a claim or billing code to a less complex or lower-level code resulting in lower reimbursement. The APL would establish requirements concerning disclosure of downcoding methodologies, review of supporting documentation before adjusting claims, provider dispute rights, and compliance and filing obligations.

The draft is particularly relevant to APG members performing delegated claims functions. Among other provisions, DMHC would require plans to identify contracted entities performing claims functions involving downcoding and would require filing of administrative services agreements delegating those functions. The APL also states that plans remain responsible for oversight of their delegates' compliance with these requirements.

APG seeks member input on the operational implications of the draft APL, particularly from organizations that perform delegated claims adjudication or employ coding review practices that could fall within DMHC's definition of downcoding. APG intends to prepare comments in coordination with the California Association of Health Plans (CAHP). Please send comments or examples of operational concerns to APG **no**

later than close of business Thursday, August 20, to allow sufficient time to coordinate and prepare a response before DMHC's August 24 deadline.

APG Raises Concerns With DMHC's Proposed Network Adequacy Methodology

The Department of Managed Health Care (DMHC) has proposed significant changes to its network adequacy standards and review methodologies that would apply beginning with reporting year 2027. Acting under Health & Safety Code § 1367.03(f)(5), the Department proposes amendments addressing hospital capacity and bed availability, referrals to non-network providers, oversight of subcontracted networks, reasonable proximity to covered services, specialist physician ratios, geographic access, and required network provider types. Among the new methodologies, DMHC proposes minimum hospital bed-capacity and availability standards and a new threshold intended to identify networks with high rates of out-of-network referrals for network adequacy reasons. Members can review the Department's regulatory materials here: **Draft DMHC Policies**.

The California Association of Health Plans (CAHP) has raised concerns that several of the proposed methodologies could impose significant new contracting and administrative requirements without necessarily demonstrating whether patients are actually receiving timely care. Among other issues, CAHP has questioned the proposed provider-ratio methodologies, hospital-capacity standards, non-network referral thresholds, and their cumulative impact on managed care delivery and affordability. These concerns are particularly relevant to delegated physician organizations, where access is organized through physician-managed referral relationships, local facility affiliations, selective networks, and financial and utilization risk arrangements. For example, the proposed rules would allow a lack of clinical encounters to indicate that a network provider may not be readily available, while the new hospital methodology would evaluate networks using minimum bed-to-enrollee ratios and hospital bed availability.

APG has developed comments urging DMHC to address a more fundamental issue: **PPO and network-model HMO products are structurally different and should not be forced onto a one-size-fits-all regulatory chassis.** California performance data demonstrates why that distinction matters. IHA's AMP and Atlas work has repeatedly associated financially integrated, risk-sharing delivery systems with better clinical performance, lower total cost of care, and lower patient cost sharing. More recently, IHA data presented to the Office of Health Care

Affordability showed average annual commercial HMO cost growth of approximately 3 percent between 2017 and 2021, compared with approximately 10 percent for PPO/FFS products.

APG is not proposing different standards of access for PPO and HMO enrollees. Instead, our comments recommend that DMHC establish a **common outcome-based timely access standard while remaining neutral as to network architecture**. Provider ratios, geographic measures, utilization, non-network referrals, hospital capacity, and similar structural measures can help identify potential problems, but they should not substitute for the fundamental question of whether patients are actually receiving timely and appropriate care. Where an access problem exists, DMHC should intervene regardless of the coverage model. Where a network is meeting the required access outcomes, however, the Department should preserve the ability of plans and delegated physician organizations to organize care in the manner that works most effectively for their patients and communities.

APG members can review our draft response **here**.

Immediate Member Action Requested: Join APG In Opposing AB 539
APG and CAHP will oppose **AB 539** (Schiavo) as it moves through the final stages of the legislative session. The bill would generally extend approved prior authorizations for the prescribed course of treatment for up to one year. We expect the bill to pass the Legislature and are therefore focusing our advocacy on the Administration, including OHCA, DMHC, and the Governor's Office, with the goal of supporting a negative enrolled bill report and ultimately securing a **Governor's veto**.

We are asking APG members to act quickly. Please have your CMO prepare and sign a short letter joining **APG's opposition**, emphasizing the **clinical risks to patients** when physician organizations are unable to reassess ongoing treatment as a patient's condition or response to treatment changes. Use the this **template** to match the APG letter. Specific examples from your UM experience are helpful, but quick action is preferable. MSOs should seek separate letters from each contracted physician organization. Please send letters to **wbarcellona@apg.org**, and APG will bundle and distribute them through the appropriate advocacy channels.

DHCS Schedules CY 2025 MLR Meeting for August 27: Register Today!
Important Notice:
DHCS will host an MLR stakeholder meeting

August 27 at 10:30 am.
Click **here** to join the meeting.
Meeting ID: 241 172 488 972 728
Passcode: bR38Gq7b

2026 APG California Policy & Advocacy Meeting Dates
*Members, please mark your calendars for APG's California Policy Forum and California Medi-Cal Forum meetings. You can download APG's 2026 events calendar **here**.*

California Policy Forum
2:00 - 3:00 pm
- December 3

California Medi- Cal Forum
4:00 - 5:00 pm
- October 13
- November 10
- December 8

APG California Advocacy Member Resources
- 2025 Legislative Implementation Guide
- **Tracked Health Care** Bills 2025-26: bills we're following in the California State Legislature

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For more news and resources, please visit APG's website or contact a member of APG's California advocacy team.

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