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State/Territory Name: California

State Plan Amendment (SPA) #: CA-26-0020

This file contains the following documents in the order listed:

1) Approval Letter
2) Companion Letter
3) CMS 179 Form/Summary Form (with 179-like data)
4) Approved SPA Pages

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S3-14-28
Baltimore, Maryland 21244-1850

Financial Management Group

November 5, 2026

Tyler Sadwith
State Medicaid Director
California Department of Health Care Services
P.O. Box 997413, MS 0000
Sacramento, CA 95899-7413

RE: TN CA-26-0020

Dear Director Sadwith:

The Centers for Medicare & Medicaid Services (CMS) has reviewed the proposed California state plan amendment (SPA) to Attachments 4.19-A CA-26-0020, which was submitted to CMS on September 8, 2026. This plan amendment updates State Fiscal Year (SFY) 2026-27 Diagnosis Related Group (DRG) payment parameters for general acute inpatient services provided by private hospitals and non-designated public hospitals in California, out-of-state (border and non-border) hospitals, and hospitals designated by Medicare as critical access hospitals.

We reviewed your SPA submission for compliance with statutory requirements, including in sections 1902(a)(2), 1902(a)(13), 1902(a)(30), and 1903 as it relates to the identification of an adequate source for the non-federal share of expenditures under the plan, as required by 1902(a)(2) of the Social Security Act and the applicable implementing Federal regulations.

Based upon the information provided by the state, we have approved the amendment with an effective date of July 1, 2026. We are enclosing the approved CMS-179 and a copy of the new state plan pages. Additionally, a companion letter is included with this approval package. CMS identified issues with a previously approved and unchanged base payment methodology for out-of-state providers. The letter clarifies that the SPA contains a previously approved methodology for base payment to out-of-state providers that may differ from base payments made to in-state providers and that CMS is not approving any payment that may violate Circuit opinion in *Asante v. Kennedy*, No. 23-5055 (D.C. Cir. 2025), *cert. denied* (No. 25-361) (U.S. Mar. 23, 2026). More details can be found in the attached companion letter.

If you have any additional questions or need further assistance, please contact Blake Holt at 303-844-6218 or via email at Blake.Holt@cms.hhs.gov.

Sincerely,

[redacted]

Director
Financial Management Group

Enclosures

DEPARTMENT OF HEALTH & HUMAN SERVICES
Centers for Medicare & Medicaid Services
7500 Security Boulevard, Mail Stop S3-14-28
Baltimore, Maryland 21244-1850

Financial Management Group

November 5, 2026

Tyler Sadwith
State Medicaid Director
California Department of Health Care Services
P.O. Box 997413, MS 0000
Sacramento, CA 95899-7413

RE: Payment Methodologies for Out-of-State Providers in Attachment 4.19-A

Dear Director Sadwith:

The Centers for Medicare & Medicaid Services (CMS) is providing this letter as a companion to the approval of SPA CA-26-0020, which updates State Fiscal Year (SFY) 2026-27 Diagnosis Related Group (DRG) payment parameters for general acute inpatient services provided by private hospitals and non-designated public hospitals in California, out-of-state (border and non-border) hospitals, and hospitals designated by Medicare as critical access hospitals.

It appears that some of the previously approved payment methodologies that pay out-of-state providers differently (noted in "same page" review) may be problematic in light of the D.C. Circuit opinion in *Asante v. Kennedy*, No. 23-5055 (D.C. Cir. 2025), *cert. denied*, No. 25-361 (U.S. Mar. 23, 2026). By approving the corresponding SPA, CMS is expressly not approving any payment methodologies that would violate *Asante*. At this time, CMS will not take enforcement action against the state over such payment methodologies provided that the state does not implement such methodologies in a manner that conflicts with *Asante*. CMS is currently exploring options for how to proceed with this issue, which may include rulemaking.

If you have any additional questions or need further assistance, please contact Blake Holt at 303-844-6218 or via email at Blake.Holt@cms.hhs.gov.

Sincerely,

[redacted]

Director
Financial Management Group

Enclosures

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES

FORM APPROVED
OMB No. 0938-0193

TRANSMITTAL AND NOTICE OF APPROVAL OF STATE PLAN MATERIAL

FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES

1. TRANSMITTAL NUMBER: 26-0020

2. STATE: CA

3. PROGRAM IDENTIFICATION: TITLE OF THE SOCIAL SECURITY ACT: (●) XIX ( ) XXI

TO: CENTER DIRECTOR
CENTERS FOR MEDICAID & CHIP SERVICES
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE
July 1, 2026

5. FEDERAL STATUTE/REGULATION CITATION
42 CFR Part 447, Subpart C, 1902(a)(13) of the Act

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)
a. FFY 2026 $ 0
b. FFY 2027 $ 0

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT
Attachment 4.19-A pages 17.42 and 17.49
Appendix 6 to Attachment 4.19-A pages 1, 2, 3, and 3a

8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT *(If Applicable)*
Attachment 4.19-A pages 17.42 and 17.49
Appendix 6 to Attachment 4.19-A pages 1, 2, 3, and 3a

9. SUBJECT OF AMENDMENT
Inpatient Hospital APR-DRG updates for SFY 2026-27

10. GOVERNOR'S REVIEW *(Check One)*
( ) GOVERNOR'S OFFICE REPORTED NO COMMENT
( ) COMMENTS OF GOVERNOR'S OFFICE ENCLOSED
( ) NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL
(●) OTHER, AS SPECIFIED:
Please note: The Governor's Office does not wish to review the State Plan Amendment.

11. SIGNATURE OF STATE AGENCY OFFICIAL
[redacted]

12. TYPED NAME
Tyler Sadwith

13. TITLE
State Medicaid Director and Chief Deputy Director

14. DATE SUBMITTED
September 8, 2026

15. RETURN TO
Department of Health Care Services
Attn: Director's Office
P.O. Box 997413, MS 0000
Sacramento, CA 95899-7413

FOR CMS USE ONLY

16. DATE RECEIVED
September 8, 2026

17. DATE APPROVED
11/5/2026

PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL
July 1, 2026

19. SIGNATURE OF APPROVING OFFICIAL
[redacted]

20. TYPED NAME OF APPROVING OFFICIAL
Rory Howe

21. TITLE OF APPROVING OFFICIAL
Director, Financial Management Group

22. REMARKS

Instructions on Back

h. Administrative Day Reimbursement claims

i. Level I

ii. Level 2

C. APR-DRG Reimbursement

For admissions dated July 1, 2013, and after for private hospitals and for admissions dated January 1, 2014, and after for NDPHs, reimbursement to DRG Hospitals for services provided to Medi-Cal beneficiaries are based on APR-DRG. Effective July 1, 2015, APR-DRG Payment is determined by multiplying a specific APR-DRG HSRV by a DRG Hospital's specific APR-DRG Base Price with the application of adjustors and add-on payments, as applicable. Provided all pre-payment review requirements have been approved by DHCS, APR-DRG Payment is for each admit through discharge claim, unless otherwise specified in this segment of Attachment 4.19-A.

1. APR-DRG HSRV

The assigned APR-DRG code is determined from the information contained on a DRG Hospital's submitted UB-04 or 837I acute inpatient claim. The grouping algorithm utilizes the diagnoses codes, procedure codes, procedure dates, admit date, discharge date, patient birthdate, patient age, patient gender, and discharge status present on the submitted claim to group the claim to one of 335 specific APR-DRG groups. Within each specific group of 335, there are four severities of illness and risk of mortality sub-classes: minor (1), moderate (2), major (3), and extreme (4). This equates to a total of 1340 different APR-DRG (with two additional error code possibilities). Each discharge claim is assigned only one APR-DRG code. For each of the 1340 APR-DRG codes there is a specific APR-DRG HSRV assigned to it by the APR-DRG grouping algorithm. The APR-DRG HSRVs are

the remote rural base price. The labor share percentage for a SFY shall be the same percentage that the Medicare program has established according to the latest published CMS final rule and notice published prior to the start of the state fiscal year, with the exception for hospitals having wage area index less than or equal to 1.00 will have the labor share percentage applied at 62.0%. Medicare published the Medicare impact file for FFY 2026 in August 2025 and it was used for the base prices for SFY 2026-27.

Similarly, final changes to all DRG hospitals wage area, index value, or labor share calculation published for future federal fiscal years will be used for the state fiscal year beginning after the start of each respective federal fiscal year. All wage area index values were set as of July 1, 2026, and are effective for services provided on or after that date. All rates are published and can be viewed on the Medi-Cal DRG Pricing Calculator posted on the DHCS website at https://www.dhcs.ca.gov/provgovpart/pages/DRG.aspx.

b. The wage area adjustor is not applied to the hospital-specific transitional base price (determined in paragraph C.3 above).

c. After the hospital-specific transitional base price years, the CA wage area index values are capped to no more than a reduction of five percent, when compared to the provider's wage area index value assignment for the previous SFY and after application of the CA wage area neutrality adjustment factor.

6. Policy Adjustors
The implementation of APR-DRG Payment includes the functionality of policy adjustors. These adjustors are created to allow the DHCS to address any current, or future, policy goals and to ensure access to care is preserved. Policy adjustors may be used to enhance payment for services where Medi-Cal plays a major role. This functionality of policy adjustors allows DHCS the ability to ensure access to quality care is available for all services. A list of the current policy adjustors is reflected in Appendix 6 of Attachment 4.19-A. These policy adjustors are multipliers used to adjust payment weights for care categories. The projected financial impact of the policy adjustors was considered in developing budget-neutral base prices.

7. Cost Outlier Payments
Outlier payments are determined by calculating the DRG Hospital's estimated cost and comparing it to the APR-DRG Payment to see if there is a loss or gain for the hospital for a discharge claim. The DRG Hospital's estimated cost on a discharge claim is determined by the following: The DRG Hospital's estimated cost may be determined by multiplying the Medi-Cal covered charges by the DRG Hospital's most currently accepted cost-to-charge ratio (CCR) from a hospital's CMS 2552-10 cost report. The CCR is calculated from a hospital's Medicaid costs (reported on worksheet E-3, part VII, line 4) divided by the Medicaid charges (reported on worksheet E-3, part VII, line 12). All hospital CCRs will be updated annually with an effective date of July 1, after the acceptance of the CMS 2552-10 by DHCS.

Alternatively, a hospital (other than a new hospital or an out-of-state border or

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT

STATE: CALIFORNIA

Appendix 6

1. APR-DRG Payment Parameters

Parameter	Value	Description
Remote Rural APR-DRG Base Price	$27,160	Statewide Remote Rural APR-DRG Base Price.
Statewide APR-DRG Base Price	$9,584	Statewide APR-DRG Base Price (non-Remote Rural).
Policy Adjustor – Each category of service	1.00	Policy adjustor for each category of service.
Policy Adjustor – Pediatric Severity of Illness (SOI) 1-3	1.35	Policy Adjustor for all DRGs with SOI 1-3 in the Miscellaneous Pediatric or Respiratory Pediatric care categories.
Policy Adjustor – Neonate SOI 1-3	1.35	Policy Adjustor for all DRGs with SOI 1-3 in the Neonate care category, except for those receiving the Designated NICU policy adjustor below
Policy Adjustor – Neonate (designated NICU) SOI 1-3	1.85	Enhanced Policy Adjustor for all DRGs with SOI 1-3 in the Neonate care category for all Designated NICU facilities and surgery sites recognized by California Children's Services (CCS) Program to perform neonatal surgery
Policy Adjustor- Obstetrics SOI 1–3	1.10	Policy adjustor for all DRGs with SOI 1-3 in the Obstetrics care category
Policy Adjustor- Normal Newborn SOI 1–3	1.15	Policy adjustor for all DRGs with SOI 1-3 in the Normal Newborn care category
Policy Adjustor- Respiratory Pediatric SOI 1–3	1.35	Policy adjustor for all DRGs with SOI 1-3 in the Respiratory Pediatric care category
Policy Adjustor – Normal Newborn SOI 4	1.15	Policy Adjustor for all DRGs with SOI 4 in the Normal Newborn care category
Policy Adjustor – Miscellaneous Pediatric SOI 4	1.75	Policy Adjustor for all DRGs with SOI 4 in the Miscellaneous Pediatric care category
Policy Adjustor – Respiratory Pediatric SOI 4	1.75	Policy Adjustor for all DRGs with SOI 4 in the Respiratory Pediatric care category
Policy Adjustor – Neonate SOI 4	1.60	Policy Adjustor for all DRGs with SOI 4 in the Neonate care category, except for those receiving the Designated NICU policy adjustor below
Policy Adjustor – Neonate (designated NICU) SOI 4	2.10	Enhanced Policy Adjustor for all DRGs with SOI 4 in the Neonate care category for all Designated NICU facilities and surgery sites recognized by California Children's Services (CCS) Program to perform neonatal surgery
Policy Adjustor – Circulatory Adult SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Circulatory Adult care category
Policy Adjustor – Miscellaneous Adult SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Miscellaneous Adult care category

Parameter	Value	Description
Policy Adjustor – Gastroenterology Adult SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Gastroenterology Adult care category
Policy Adjustor – Other SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Other care category
Policy Adjustor – Respiratory Adult SOI 4	1.00	Policy Adjustor for all DRGs with SOI 4 in the Respiratory Adult care category
Policy Adjustor –Obstetrics SOI 4	1.15	Policy Adjustor for all DRGs with SOI 4 in the Obstetrics care category
California Wage Area Neutrality Adjustment	0.9199	Adjustment factor used by California or Border hospital
Wage Index Labor Percentage	66.0%	Percentage of DRG Base Price or Rehabilitation per diem rate adjusted by the wage index value.
High-Cost Outlier Threshold	$99,000	Used to determine Cost Outlier payments.
Low-Cost Outlier Threshold	$99,000	Used to determine Cost Outlier payments.
Marginal Cost Factor	53.0%	Used to determine Cost Outlier payments.
Discharge Status Value 02	02	Transfer to a short-term general hospital for inpatient care
Discharge Status Value 05	05	Transfer to a designated cancer center
Discharge Status Value 63	63	Transfer to a long-term care hospital
Discharge Status Value 65	65	Transfer to a psychiatric hospital
Discharge Status Value 66	66	Transfer to a critical access hospital (CAH)
Discharge Status Value 82	82	Transfer to a short-term general hospital for inpatient care with a planned acute care hospital inpatient readmission
Discharge Status Value 85	85	Transfer to a designated cancer center or children's hospital with a planned acute care hospital inpatient readmission
Discharge Status Value 91	91	Transfer to a Medicare certified Long-Term Care Hospital with a planned acute care hospital inpatient readmission
Discharge Status Value 93	93	Transfer to a psychiatric distinct part unit of a hospital with a planned acute care hospital inpatient readmission
Discharge Status Value 94	94	Transfer to a Critical Access Hospital with a planned acute care hospital inpatient readmission
Interim Payment	$600	Per diem amount for Interim Claims
APR-DRG Grouper Version	V.43.0	Solventum Software version used to group claims to a DRG
HAC Utility Version	V.43.1	Solventum Software version of the Healthcare Acquired Conditions Utility
Pediatric Rehabilitation Rate	$1,841	Daily rate for rehabilitation services provided to a beneficiary under 21 years of age on admission.
Adult Rehabilitation Rate	$1,032	Daily rate for rehabilitation services provided to a beneficiary 21 years of age or older on admission.

2. Separately Payable Services, Supplies, Devices, and Prescribed Drugs

Code	Description
	Bone Marrow
38204	Management of recipient hematopoietic progenitor cell donor search and acquisition
38204	Unrelated bone marrow donor
	Blood Factors
J7175	Blood Factor X
J7179/J7187	Blood factor Von Willebrand
J7180/J7181	Blood factor XIII
J7182	Blood factor VIII/ Novoeight
J7183	Blood factor Von Willebrand –injection
J7185/J7190/J7192/ J7204/J7205/J7207/J7208/J7209/J7210/J7211	Blood factor VIII/ Esperoct/ Eloctate/ Adynovate/ Jivi/ Nuwiq/ Afstyla
J7186/ J7214	Blood factor VIII/ von Willebrand
J7188	Blood Factor VIII/ Obizur
J7189/J7212	Blood factor VIIa/ Sevenfact
J7193/J7194/J7195/ J7200/J7201/ J7202/J7203/J7213	Blood factor IX/ Rixubis/ Alprolix/ Idelvion/ Rebinyn/ Ixinity
J7197	Blood factor Anti-thrombin III
J7198	Blood factor Anti-inhibitor
	Long-Acting Reversible Contraception Methods
J7296/J7297/J7298/ J7301/J7302	Levonorgestrel-releasing intrauterine contraceptive system (Kyleena/ Liletta/ Mirena/ Skyla)
J7300	Intrauterine Copper (Paragard)
J7307	Etonogestrel (Implanon, Nexplanon)
	CAR T-Cell Therapies
Q2040/Q2042	Tisagenlecleucel (Kymriah™)
Q2041	Axicabtagene ciloleucel (Yescarta™)
	Other
J3392	Exagamglogene autotemcel (Casgevy)
J3394	Lovotibeglogene autotemcel (Lyfgenia)
J3399	Onasemnogene abeparvovec-xioi (Zolgensma®)

List of Hospitals Eligible to receive the "DRG- NICU- Surgery Policy Adjustor"

A. Hospitals approved to receive Policy Adjustor – NICU Surgery, status as of February 6, 2026:

1) California Pacific Medical Center - Pacific
2) Cedars Sinai Medical Center
3) Children's Hospital & Research Center of Oakland (UCSF Benioff Oakland)
4) Children's Hospital of Los Angeles
5) Children's Hospital of Orange County
6) Citrus Valley Medical Central – Queen of the Valley
7) Community Regional Medical Center Fresno
8) Good Samaritan - San Jose
9) Huntington Memorial Hospital
10) Kaiser Anaheim
11) Kaiser Downey
12) Kaiser Fontana
13) Kaiser Foundation Hospital - Los Angeles
14) Kaiser Permanente Medical Center - Oakland
15) Kaiser Foundation Hospital – Roseville
16) Kaiser Permanente – Santa Clara
17) Kaiser Foundation Hospital San Diego
18) Loma Linda University Medical Center
19) Lucille Salter Packard Children's Hospital – Stanford
20) Miller Children's at Long Beach Memorial Medical Center
21) Pomona Valley Hospital Medical Center
22) Providence Tarzana Regional Medical Center
23) Rady Children's Hospital - San Diego
24) Santa Barbara Cottage Hospital
25) Sutter Memorial Hospital
26) Valley Children's Hospital