

March 30, 2026

THIS LETTER SENT VIA EMAIL

Ms. Courtney Miller, Director
Division of Program Operations
Medicaid and CHIP Operations Group
Centers for Medicare & Medicaid Services
601 East 12th Street, Room 355
Kansas City, MO 64106

STATE PLAN AMENDMENT 26-0002: GRADUATE MEDICAL EDUCATION PAYMENTS TO DISTRICT AND MUNICIPAL PUBLIC HOSPITALS

Dear Ms. Miller:

The Department of Health Care Services (DHCS) is submitting State Plan Amendment (SPA) 26-0002 for your review and approval. This SPA proposes to provide direct and indirect graduate medical education (GME) payments to be made to district and municipal public hospitals (DMPHs) participating in the Medi-Cal managed care program and their affiliated government entities. DHCS seeks an effective date of January 1, 2026, for this SPA.

California Senate Bill 246 (Chapter 308, Statutes of 2025) was enacted on October 3, 2025, and added Welfare and Institutions Code (WIC) section 14105.291, which requires DHCS to seek federal approvals to implement a GME program for DMPHs. This program would be structured similarly to the existing GME Payments to Designated Public Hospitals (DPHs), which provides direct and indirect GME payments to be made to DPHs and their affiliated medical/nursing/paramedical schools.

DHCS has determined that a Tribal notice is not necessary for this proposal. A Public Notice regarding SPA 25-0015 (later renumbered to SPA 26-0002 via addendum to the public notice published March 25, 2026), was published on December 12, 2025. At the time of SPA submission, no comments were received.

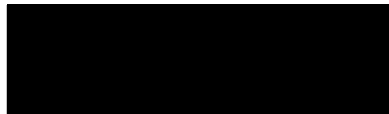
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Included in this submission are the following documents:

- CMS 179 Form
- Federal Budget Impact
- Public Notice
- Supplement 8 to Attachment 4.19-A (new)
- Inpatient Standard Funding Questions
- Inpatient Hospital Upper Payment Limit Guidance
- Non-Designated Public Hospital Upper Payment Limit Guidance

If you have any questions or need additional information, please contact Katie Brooks, Chief, Safety Net Financing Division, at (916) 345-7937 or by email at Katie.Brooks@dhcs.ca.gov.

Sincerely,



Tyler Sadwith
State Medicaid Director
Chief Deputy Director, Health Care Programs
California Department of Health Care Services

Enclosures

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**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL
FOR: CENTERS FOR MEDICARE & MEDICAID SERVICES**

1. TRANSMITTAL NUMBER

2. STATE

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

5. FEDERAL STATUTE/REGULATION CITATION

6. FEDERAL BUDGET IMPACT (Amounts in WHOLE dollars)

a. FFY _____ \$ _____

b. FFY _____ \$ _____

7. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT

8. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION OR ATTACHMENT (If Applicable)

9. SUBJECT OF AMENDMENT

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

12. TYPED NAME

13. TITLE

14. DATE SUBMITTED

15. RETURN TO

FOR CMS USE ONLY

16. DATE RECEIVED

17. DATE APPROVED

PLAN APPROVED - ONE COPY ATTACHED

18. EFFECTIVE DATE OF APPROVED MATERIAL

19. SIGNATURE OF APPROVING OFFICIAL

20. TYPED NAME OF APPROVING OFFICIAL

21. TITLE OF APPROVING OFFICIAL

22. REMARKS

STATE PLAN UNDER TITLE XIX OF THE SOCIAL SECURITY ACT
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**GRADUATE MEDICAL EDUCATION PAYMENTS TO DISTRICT AND MUNICIPAL
PUBLIC HOSPITALS**

Effective January 1, 2026, graduate medical education (GME) payments eligible for federal financial participation (FFP), shall be made to district and municipal public hospitals (DMPHs) using the methodologies described in this section, in recognition of the Medi-Cal Managed Care share of direct and indirect GME costs. Payments shall be made by the Department of Health Care Services (DHCS) to the DMPHs for individuals enrolled in a Medi-Cal Managed Care plan. Actuarially sound capitation rates paid to Medi-Cal Managed Care plans shall not include the GME payments.

A. Eligible Entities

DMPHs means a nondesignated public hospital as defined in Welfare and Institutions Code section 14166.1 subdivision (f). The provider must be an eligible DMPH effective at or before the start of the state fiscal year (SFY) for which payments are being made. In cases where the provider does not remain an eligible entity for the entire SFY, the provider will receive interim direct and indirect GME payments for the quarters in which they have eligibility. If a provider is not eligible at the start of a quarter and continuously through the end of the same quarter, they will not receive GME payments for the respective quarter.

B. Interim Payment Methodologies

Interim direct and indirect GME payments eligible for FFP shall be made to DMPHs on a quarterly basis based on the methodologies below. Final settlements shall occur according to the methodology described in paragraph C.

1. Direct GME Interim Payment

- a. By June 30 prior to the start of a given SFY, using the most recently available Medicare cost report, DHCS will calculate the projected annual direct graduate medical education (DGME) payment for each DMPH for the given SFY by multiplying the following three factors: Full Time Equivalent (FTE) of interns, residents, and fellows, Medi-Cal Managed Care inpatient payer mix, and Per Resident Amount (PRA). Interim payments based on the annual projected DGME amount will be paid in quarterly

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installments.

- i. DGME FTE calculation. The number of Medicare allowable FTE interns, residents, and fellows in medicine, osteopathy, dentistry, and podiatry programs receiving training at the DMPH will be identified from the most recently available Medicare cost report form CMS-2552-10. In the CMS-2552-10 for the cost reporting period covering SFY 2025-26, the FTEs are reported on worksheet E-4, line 17, column 1, plus worksheet E-4, line 17, column 2, plus worksheet E-4, line 22. In any future revisions to the CMS-2552, the equivalent cost report worksheets/parts/lines/columns will be used.
- ii. Medi-Cal Managed Care inpatient payer mix. The Medi-Cal Managed Care inpatient payer mix of the DMPH will be calculated as the ratio of Medi-Cal Managed Care inpatient days (excluding dual eligible days) divided by the total inpatient days for all payers. The Medi-Cal Managed care inpatient days include Medi-Cal days reported in acute areas and inpatient rehabilitation facilities (IRF) including nursery, but excludes Inpatient Psychiatric Facilities (IPF). The total inpatient days for all payers includes IPF days. In the CMS-2552-10 for the cost reporting period covering SFY 2025-26, the Medi-Cal Managed Care inpatient days are reported on worksheet S-2, part I, lines 24 plus 25, column 5; the total inpatient days for all payers are reported on worksheet E-4, line 27, plus worksheet S-3, part I, line 13, column 8. In any future revisions to the CMS-2552, the equivalent cost report worksheets/parts/lines/columns will be used.
- iii. Per Resident Amount. The PRA will be a set amount to reflect the average direct costs incurred in the operation of GME programs, which for SFY 2025-26 shall equal \$130,489 per FTE. For subsequent SFYs, this amount shall be adjusted for the purposes of making interim payments by the estimated percentage change in the Consumer Price Index for All Urban

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Supersedes

TN No. None

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Consumers (CPI-U, U.S. city average) for Medical Care services. During interim payment calculations, CPI-U for the given SFY will not be available, so a CPI-U from the most recently available SFY will be applied.

2. Indirect GME Interim Payment

- a. By June 30 prior to the start of a given SFY, DHCS will calculate the annual indirect graduate medical education (IME) interim payments by multiplying the following factors for each DMPH, and summing the results for each hospital: the hospital's adjusted Medi-Cal IME payment per inpatient day and total Medi-Cal Managed Care days. Interim payments based on the IME distribution will be paid in quarterly installments.
 - i. Medicare IME payment per inpatient day. To calculate each hospital's Medicare IME payment per inpatient day, total Medicare allowable IME payments are divided by Total Medicare days, based on data from the most recently available Medicare cost report form CMS-2552-10. The Medicare IME payment amount includes Medicare Advantage, Medicare Traditional, and Medicare IRF days. The sum of these items calculates the total Medicare IME payments. The total Medicare IME payment amount excludes IME payments associated with IPF days. Total Medicare days is the sum of traditional inpatient Medicare days and inpatient Medicare Advantage days excluding inpatient psychiatric services. In the CMS-2552-10 for the cost reporting period covering SFY 2025-26, the Medicare IME payment amount is reported on worksheet E, part A, line 29.01, columns 1 and 1.01 (if any), plus worksheet E, part A, line 29, columns 1 and 1.01 (if any), plus worksheet E-3, part III, line 12 (if any). The total Medicare days are reported in worksheet E-4, line 26, column 1, plus worksheet E-4, line 26, column 2 and 2.01, minus worksheet S-3, part I, lines 3 and 16, column 6. In any future revisions to the CMS-2552, the equivalent cost report worksheets/parts/lines/columns will be

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used.

- ii. Adjusted Medi-Cal IME payment per inpatient day. Once the hospital's Medicare IME payment per inpatient day is calculated as described in subparagraph i, the hospital's Medi-Cal Managed Care case mix adjustment is applied to provide the adjusted Medi-Cal IME payment per inpatient day. The Medi-Cal Managed Care case mix adjustor will be calculated based on the most recently available Department of Health Care Access and Information (HCAI) data, and will be the result of dividing each DMPH's case mix index within Medi-Cal Managed Care by its case mix index within Medicare (traditional and Medicare Advantage).
- iii. Each hospital's adjusted Medi-Cal IME per inpatient day amount is multiplied by the total Medi-Cal Managed Care days. The total Medi-Cal Managed Care days are obtained from the most recently available Medicare Cost report and include IRF days but exclude IPF days. In the CMS-2552-10 for the cost reporting period covering SFY 2025-26, the Medi-Cal Managed Care inpatient days are reported on worksheet S-2, part I, lines 24 plus 25, column 5. In any future revisions to the CMS-2552, the equivalent cost report worksheets/parts/lines/columns will be used.
- iv. The results of the calculation in subparagraph iii. for each DMPH will be distributed in the given SFY.

C. Final Settlements

DHCS will finalize interim payments eligible for FFP using the most recently available filed and accepted Medicare cost reports for the given SFY and most recently available HCAI data. Adjustments for overpayments and underpayments will be carried out, if necessary. Providers file Medicare cost reports five months after the close of the provider fiscal year. Final

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settlements must be completed by September 30 following submission of the given SFY's cost report. For example, final settlements for dates of service SFY 2025-26 interim payments must be completed by September 30, 2027.

1. DGME

- a. The number of FTE interns, residents, and fellows in medicine, osteopathy, dentistry, and podiatry programs receiving training at the DMPH will be updated using the most recently filed and accepted Medicare cost report form CMS-2552-10 for the given SFY.
- b. The Medi-Cal Managed Care payer mix of the DMPH will be calculated as the ratio of Medi-Cal Managed Care inpatient days (net of dual eligible days) divided by the total inpatient days for all payers. The Medi-Cal Managed Care inpatient days include Medi-Cal days reported in acute areas and IRFs including nursery, but excludes IPF. The total inpatient days for all payers includes IPF days.
- c. The PRA shall be adjusted by applying the percentage change in the CPI-U, U.S. city average for Medical Care services using data for the given fiscal year.

2. IME

- a. The IME final settlement will be determined by updating the calculations in paragraph B.2 with the most recently filed and accepted Medicare cost reports for the given fiscal year and most recently available HCAI data.

D. Timeline

1. By January 31 prior to each SFY in which GME interim payments are made, DHCS will obtain the most recently available Medicare cost report forms CMS-2552-10 and the most recently available HCAI

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data.

2. By June 30 prior to each SFY in which GME interim payments are made, DHCS will calculate the annual DGME and IME interim payments to be distributed on a quarterly basis.
3. By September 30 following the submission of the given SFY's cost report, DHCS will finalize payments and make adjustments for overpayments or underpayments if necessary.

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