



DATE: November 06, 2025

Behavioral Health Information Notice No: 25-038

TO: California Alliance of Child and Family
Services California Association for
Alcohol/Drug Educators
California Association of Alcohol & Drug Program Executives, Inc.
California Association of DUI Treatment Programs
California Association of Social Rehabilitation Agencies
California Consortium of Addiction Programs and
Professionals California Council of Community Behavioral
Health Agencies California Hospital Association
California Opioid Maintenance Providers
California State Association of Counties
Coalition of Alcohol and Drug Associations
County Behavioral Health Directors
County Behavioral Health Directors Association of California
County Drug & Alcohol Administrators

SUBJECT: Modifications to the Rate Methodology for Fee-for-Service Medi-
Cal Contract (FFS/MC) Hospitals and Reporting Requirement
Submissions.

PURPOSE: The purpose of this Behavioral Health Information Notice (BHIN) is
to inform Mental Health Plans (MHP) of modifications to the rate
methodology for rates negotiated between MHPs and FFS/MC
Contract Hospitals and the new requirements for reporting those
rates to DHCS.

REFERENCE: State Plan Amendment (SPA) [23-0045](#), Cal. Code Regs. Tit. 9, BHIN
25-011

BACKGROUND:
SPA 23-0045 updated the methodology by which Fee-For-Service reimbursement for
acute psychiatric inpatient hospital services is determined between the negotiating
entity and the servicing hospital. The purpose of updating the methodology through
SPA 23-0045 was to use more current cost information in setting the reimbursable



limit placed on the negotiated rate.

MHPs are responsible for ensuring that Medi-Cal members have adequate access to Medi-Cal covered specialty mental health services, including acute psychiatric inpatient hospital services. For purposes of Medi-Cal reimbursement, hospitals providing acute psychiatric inpatient hospital services are designated as Short-Doyle/Medi-Cal (SD/MC) hospitals or Fee-for-Service/Medi-Cal (FFS/MC) hospitals. FFS/MC hospitals include all hospitals except for those hospitals identified as SD/MC hospitals in SPA 23-0015. FFS/MC “contract hospitals” are FFS/MC hospitals that contract with any Mental Health Plan (MHP) to provide psychiatric inpatient hospital services. FFS/MC contract hospitals are paid a per diem rate negotiated between the hospital and the MHP of the county in which the hospital is located (Title 9 CCR, Section 1820.110). Reimbursement for the negotiated rate must comply with the parameters described in the California Medicaid State Plan.

Prior to the Centers for Medicare & Medicaid Services’ (CMS) approval of SPA 23-0045, the parameters established with SPA 09-004 required the negotiated rate to be less than or equal to the lower of the hospital’s usual and customary charge or the maximum per diem rate as determined by DHCS for the region where the hospital was located using the Fiscal Year 2013-14 Annual Financial Disclosure Report submitted to the California Department of Health Care Access and Information for all negotiated rate hospitals in each region annually trended to the rate year by the IHS Global Inc. CMS Market Basket Index for Inpatient Psychiatric Facilities.

CMS approved SPA 23-0045 on May 23, 2024, with an effective date of December 12, 2023. Pursuant to SPA 23-0045, the amended parameters limit reimbursement for each fiscal year’s negotiated rate to the lower of:

1. The hospital’s usual and customary charge, as defined in [The Provider Reimbursement Manual – Part I](#), or
2. The hospital’s cost per day as determined in its most recently settled or audited CMS 2552 cost report trended to the rate year using one of the following:
 - The percentage change in the IHS Global Inc. CMS Market Basket Index for Inpatient Psychiatric Facilities; or
 - Another cost-of-living index approved by CMS.

The negotiated rate includes routine hospital services and all hospital-based ancillary services. It does not include professional services, which are claimed separately and reimbursed directly by MHPs. Pursuant to California’s Medicaid State Plan, “routine hospital services” means bed, board, and all medical, nursing, and support services usually provided to an inpatient by a hospital. Routine hospital services do not include hospital-based ancillary services, psychiatrist or other physician services, or

psychologist services. "Hospital-based ancillary services" means services other than routine hospital services and psychiatric inpatient hospital professional services that are received by a beneficiary admitted to a psychiatric inpatient hospital.

MHPs may renegotiate rates with FFS/MC hospitals in accordance with the parameters described in SPA 23-0045. Those renegotiated rates may be applied to dates of service starting on December 12, 2023, and will be applied to dates of service through June 30, 2026, unless the MHP submits a subsequent negotiated rate for an effective date after December 12, 2023, based upon a new settled or audited CMS 2552 or the hospital's usual and customary charge. The MHP may select any effective date for a subsequent negotiated rate.

This BHIN provides additional guidance for MHPs to negotiate those rates and describes the information that must be submitted with each hospital's negotiated rate so that DHCS can verify the rate is compliant with the new parameters.

POLICY:

MHPs may renegotiate rates with FFS/MC hospitals in accordance with the parameters described in SPA 23-0045. These renegotiated rates must be submitted to DHCS, along with all required documentation, before DHCS can approve the rates and deploy them in the payment system. DHCS will implement all renegotiated rates that are compliant with the new parameters and will process an Erroneous Payment Correction (EPC) for any claims for dates of service on or after the effective date of the renegotiated rate that were paid at the previous rate as long as the date of service is not more than 700 days from the date the EPC is processed.

The renegotiated rate must be less than or equal to the lower of the hospital's usual and customary charge or its cost per day as determined in its most recently settled or audited CMS 2552 cost report, trended to the rate year using the percentage change in the IHS Global Inc CMS Market Basket Index for Inpatient Psychiatric Facilities or another cost-of-living index that is approved by CMS. Hospitals that do not have a settled or audited CMS 2552 will be reimbursed at the appropriate regional rate. Counties may obtain the settled or audited CMS 2552 hospital cost report and associated forms from the hospital or by submitting a Freedom of Information Act request in the CMS [website](#). MHPs must submit a negotiated rate package with the following information to DHCS for each hospital's renegotiated rate(s) or their existing contracted rates within three months of the date of the BHIN:

1. Renegotiated rates and hospital information (Enclosure 2)
2. The facility's published charge schedule containing its usual and customary charge for each accommodation code and age group for which the MHP is

submitting a negotiated rate. Please clearly identify the applicable charge on the charge schedule.

3. The facility's most recent settled CMS 2552 hospital cost report. The status of the CMS 2552, identified in Worksheet S, Part I, Item 5 of the cost report, must be either 2, settled without audit, or 3, settled with audit.
4. The Negotiated Rate Limit verification worksheet (Enclosure 1).

If an MHP does not submit a rate package with this information for an existing negotiated rate for a hospital within three months of the date of this BHIN, the hospital's rate will revert to the appropriate regional rate unless and until the MHP submits a complete rate package. DHCS published the Fiscal Year 2023-24 regional rate as an [enclosure](#) to [BHIN 23-038](#), the Fiscal Year 2024-25 regional rate as an [enclosure](#) to [BHIN 24-037](#), and will publish the Fiscal Year 2025-26 regional rate in the Fall. If there is not a contracted rate, the implementation of the regional rate will become effective December 12, 2024, and rate corrections will be processed.

If an MHP determines that the IHS Global Inc. CMS Market Basket Index does not adequately capture a hospital's increased costs from the settled or audited CMS 2552 hospital cost report to the rate year, it may propose an alternative cost of living index to DHCS for evaluation. DHCS will consider an alternative cost of living index for negotiated rates that are effective on or after July 1, 2024. An MHP may propose another standardized cost of living index for one or all hospitals located in the county, or a non-standardized cost of living index based upon a hospital's specific cost data. To request and to use an alternative standardized cost of living index, please submit Form DHCS 3146 (Enclosure 3) to SDMCRates@dhcs.ca.gov. Please include the Alternative Cost of Living Index in the subject line of the e-mail. DHCS will evaluate the MHP's justification for the proposed index. If DHCS agrees with the proposed index, DHCS will engage CMS to request approval to use the proposed index.

Please e-mail DHCS at SDMCRates@dhcs.ca.gov to request assistance with preparing a request for CMS to review and approve a hospital-specific non-standardized cost of living index. Please include Non-Standardized Alternative Cost of Living Index in the subject line. CMS approval of a non-standardized hospital-specific cost-of-living index may only be applied to the year in which it was requested, and the MHP must use the IHS Global Inc. CMS Market Basket Index for Inpatient Psychiatric Facilities in subsequent years unless CMS approves an alternative standardized cost of living index.

The parameters described in SPA 23-0045 and the process described in this BHIN

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apply to the rates DHCS may pay FFS/MC hospitals for acute psychiatric inpatient hospital services provided to Medi-Cal members, including FFS/MC hospitals participating in the Mental Health IMD FFP Program authorized under the BH-CONNECT 1115 Waiver.¹

The parameters described in SPA 23-0045 and the process described in this BHIN establish the maximum rates DHCS may pay FFS/MC contract hospitals for acute psychiatric inpatient hospital services provided to Medi-Cal members, including FFS/MC contract hospitals participating in the Mental Health IMD FFP Program authorized under the BH-CONNECT 1115 Waiver. If a rate negotiated between an MHP and FFS/MC contract hospital exceeds the maximum rate permitted by the parameters in SPA 23-0045 and the process described in this BHIN, DHCS will pay the FFS/MC contract hospital the maximum rate. If an MHP and FFS/MC contract hospital cannot negotiate a rate, or if the MHP does not submit to DHCS a negotiated rate that DHCS is able to approve, then DHCS will pay the FFS/MC contract hospital at the appropriate regional rate until an approvable negotiated rate is in place.

The parameters described in SPA 23-0045 and the process described in this BHIN do not apply to rates paid to FFS/MC hospitals for acute psychiatric inpatient hospital services that are subject to the Institution for Mental Disease (IMD) exclusion. [BHIN 20-008](#) provides guidance regarding county responsibility to pay for psychiatric inpatient hospital services that are subject to the IMD exclusion.

Sincerely,

Charles Anders
Chief, Local Governmental Financing Division

¹ Please see [BHIN 25-011](#) for more information about the Mental Health IMD FFP Program.