Good Faith Waiver Exemption Request for Medicaid Work and Community Engagement Requirements

California Department of Health Care Services

Table of Contents

Section I: Introduction 2
Section II: Actions Taken Toward Implementation 3
A. Governance and Project Management. 3
B. Legislative Authority, Budget Approval, and Procurement Activities. 4
C. Policy Development. 5
D. Eligibility Systems Design and Development. 6
E. Member Notices and Communications. 7
F. Staff Hiring, Training and Operational Readiness. 8
G. Stakeholder Engagement. 9
H. Coordination with CMS. 10
I. Risk Mitigation Planning. 10
Section III: Systems Barriers Preventing Implementation by January 1, 2027 11
Section IV: Plan for Achieving Full Compliance 14
Section V: Exigent Circumstances 15
Section VI: Conclusion 15

CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES

Section I: Introduction

The California Department of Health Care Services (DHCS) is submitting this request for a temporary (i.e. six-month) good faith effort exemption from implementing Medicaid work and community engagement requirements (WCER), pursuant to section 1902(xx)(11) of the Social Security Act and Centers for Medicare & Medicaid Services' (CMS') Interim Final Rule (IFR).

Section 71119 of H.R. 1 establishes WCER for expansion adults aged 19-64 beginning January 1, 2027. Since passage in July 2025, DHCS has worked diligently to come into compliance with the new requirements based on the statutory language in H.R. 1, CMS guidance in the April 8, 2026 State Health Official letter, direction shared directly by CMS to DHCS in cross-state and California-specific meetings, direction shared directly by CMS to DHCS in written documentation, and, more recently, the IFR published by CMS on June 3, 2026.

The IFR materially departs from the statutory language and preliminary CMS guidance that DHCS reasonably relied on through June 3, 2026 to: (1) develop new eligibility policies, procedures, and business rules; (2) update operational processes and workflows; (3) configure information technology (IT) systems changes; (4) develop training materials for staff and implementation partners; and (5) communicate upcoming changes with members, providers, stakeholders, and the general public. The IFR's new and unanticipated requirements that became effective July 31, 2026, some of which represent a significant departure from prior CMS guidance, which DHCS could not have anticipated based upon CMS' prior guidance and technical assistance, have disrupted the original implementation timeline. Prior to these changes, DHCS was on track for a January 1, 2027 go-live date as DHCS documented for CMS' Data and Systems Group (DSG) regularly in meetings with California's Medicaid Enterprise Systems State Officer between January 14, 2026 through May 28, 2026.

California remains committed to implementing WCER as expeditiously as possible, and also is committed to doing so in a manner that ensures program integrity, is legally compliant, is operationally sound, and ensures eligible individuals retain coverage. The substantial changes required under the IFR make it impossible for California to be fully compliant by the January 1, 2027 implementation date. Proceeding on this timeline would result in premature implementation of a partially compliant system and put approximately 4.8 million Medi-Cal expansion members at risk of eligibility determinations that are inconsistent with the IFR requirements.

The request below outlines the good faith efforts and progress DHCS has completed to date for WCER implementation; the systems challenges brought about by the IFR that now prevent California from meeting the January 1, 2027 implementation timeline; and DHCS' realistic plan and timeline for completing implementation during the requested exemption period. DHCS remains committed to achieving full compliance as expeditiously as possible and will continue advancing implementation throughout the requested six-month exemption period. At the same time, DHCS believes the additional time requested is necessary to avoid the serious risks associated with implementing WCER before the State can administer the requirements accurately, reliably and in full alignment with the IFR.

Section II: DHCS' Good Faith Actions Taken Toward Implementation

Since July 2025, California has undertaken a rigorous statewide, cross-agency effort to establish the infrastructure necessary to launch WCER by January 1, 2027. This work spans several implementation workstreams, described in further detail below.

A. Governance and Project Management. In August 2025, DHCS established a dedicated core team to oversee and coordinate California's efforts to meet the January 1, 2027 WCER implementation deadline. The core team includes executive, managerial, and analytical staff from Health Care Benefits & Eligibility within DHCS, bringing together extensive expertise in Medicaid eligibility and enrollment policy, operations, systems implementation, and large-scale federal program changes. The core team directed and collaborated with other major program areas across DHCS and with external partners, including the Enterprise Technology Services, Enterprise Data and Information Management, and Quality and Population Health Management divisions, along with partners at the integrated eligibility systems, the California Statewide Automated Welfare System (CalSAWS) and California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS).

By September 2025, the core team completed the development of a comprehensive implementation roadmap spanning 10 key workstreams and approximately 60 project milestones. These workstreams were first shared with CMS' DSG in December 2025. These workstreams include governance, policy and operational design, operational and systems readiness, implementation partner engagement, CMS engagement, and monitoring and oversight. DHCS regularly uses this roadmap to track progress, monitor critical milestones, and guide cross-functional implementation efforts. DHCS regularly updates this roadmap pursuant to WCER information and guidance communicated by CMS, such as presentations and slide decks provided in November 2025, March 2026, and May 2026. DHCS also consistently communicates implementation status updates based on this roadmap to CMS' DSG, including during its May 28, 2026 systems demo. The roadmap required significant revision in light of the IFR, resulting in a new timeline for implementation of no sooner than July 1, 2027.

Since establishment, the DHCS core team has maintained regular weekly and ad hoc touchpoints with internal program staff, executive leadership, county partners, contracted vendors, and other implementation stakeholders to advance planning efforts and ensure work proceeds on schedule.

In addition, DHCS developed and submitted a CMS-required workplan in December 2025 describing the State's plan to align with CMS' December 2025 Minimum Viable Product (MVP) for January 1, 2027. DHCS' December 2025 MVP submission to CMS demonstrates that DHCS was prepared for a January 1, 2027 launch pursuant to the statutory language in H.R. 1 and available CMS guidance at that time.

Notably, CMS provided states with an updated MVP document in late August 2026 that included substantial changes to reflect new policy in the IFR. DHCS has reviewed the new MVP and updated the project management plan to align with CMS' latest guidance. Based on the revisions made to the project management plan, reflecting the substantial new and unanticipated requirements in the IFR that necessitate 71 new business rules for system changes that are explained in detail below, DHCS has assessed that it will be unable to meet all MVP requirements by January 1, 2027.

B. Legislative Authority, Budget Approval, and Procurement Activities. California has undertaken extensive legislative, budgetary, and procurement activities to support timely implementation of WCER and ensure the necessary legal, operational, and technical infrastructure is in place.

Legislative Authority. DHCS actively engaged in California's 2026-2027 legislative session to secure the statutory authority necessary for January 1, 2027 WCER implementation. These efforts included regular engagement with legislative leadership and committees, presentations and briefings to legislative branch policymakers (e.g., on 12/12/2025, 12/19/2025, 1/26/2026, 4/17/2026, 6/19/2026) on implementation approach, timelines, and addressing any questions related to coverage retention. The enacted 2026-27 trailer bill establishes the necessary state statutory authorities for DHCS to implement WCER and other Medicaid eligibility changes set forth in H.R. 1. This partnership with the legislature remains ongoing and reflects DHCS' commitment to establishing the state-level legal framework necessary to operationalize WCER in accordance with federal requirements.

Budget Approval. Recognizing the substantial resources required to implement WCER, DHCS proactively incorporated implementation funding needs into California's budget development process and timeline. DHCS secured planning resources in FY 2025-26 and submitted a FY 2026-27 budget request in January 2026 and a revised request in May 2026 to support counties, which serve as California's primary eligibility and enrollment entities and Medi-Cal administrators, with WCER implementation activities. These requests were informed by preliminary financial modeling and member enrollment projections based on H.R. 1 statutory language and CMS guidance to date. California's final budget, enacted on June 29, 2026, allocates an additional $709 million in total funds ($196.8 million state funds) to support county implementation of Medicaid-related H.R. 1 provisions, including WCER.[1]

Procurement Activities. In parallel with legislative and budget efforts, DHCS has undertaken significant procurement activities to support WCER implementation. In addition to working with a longstanding information technology (IT) systems vendor, DHCS negotiated the addition of Equifax and TRUV electronic services to its system integrator contract, as two new income and employment data sources to support electronic verification of WCER. These procurements took place between October 2025 and March 2026 and reflect data expansions captured in the State's updated Advance Planning Document (APD) approved by CMS in July 31, 2026 with an effective date of June 8, 2026.

To further support implementation planning, DHCS procured a health policy and advisory contractor in August 2025 to provide policy, operational, project management, and cross-agency coordination support to the dedicated WCER core team as well as support engagement with CMS and implementation partners. DHCS also executed a contract with a vendor in December 2025 for professional services in support of WCER including facilitating cross-agency coordination and delivering subject matter expertise on system integration between the Medi-Cal eligibility systems. DHCS additionally procured a communications vendor in August 2026 to support member outreach, communications, and education efforts associated with WCER.

[1] The final enacted budget does not account for updates based on IFR changes. The June 3 publication of the IFR did not permit sufficient time in the budget process to estimate and account for needed budget changes ahead of the legislature's deadline for passage.

C. Policy Development. DHCS has devoted significant time and resources to designing the eligibility policies, operational processes, and business rules necessary to implement WCER in a way that complies with federal requirements while minimizing administrative burden, promoting continuity of coverage, and creating a member-centered implementation approach. Throughout this effort, DHCS has engaged extensively with counties, managed care plans, providers, members, advocates, and other stakeholders to ensure policies are transparent and clearly communicated, further detailed in Section G: Stakeholder Engagement below. Activities within this workstream have included, but are not limited to:

- Establishing key eligibility policies and business rules to operationalize WCER at application and renewal, lookback periods, and member noticing requirements *(originally completed December 2025, but now subject to further review as a result of the IFR).*
- Updating and testing Medi-Cal application and renewal forms *(originally completed December 2025, but now subject to further review as a result of the IFR).*
- Developing and testing a new medical frailty screener to support identification of individuals excluded from WCER, which we shared with CMS on June 11, 2026 upon request to support CMS' learning about emerging and best practices from states *(originally completed May 2026, but now subject to further review as a result of the IFR).*
- Developing a medical frailty code list in collaboration with internal and external partners, including almost a dozen national clinician and patient advocacy groups *(originally developed between October 2025 and May 2026; active refinements ongoing to align with the IFR, but now subject to further review as a result of the IFR).*
- Creating a centralized "Diamond File" inventory of available data sources to conduct electronic verification of WCER before requesting information from an individual, and the data elements that will be shared between systems to support this effort *(originally completed May 2025, but now subject to further revisions as a result of the IFR to ensure required data elements [e.g., the basis of a medical frailty exclusion] are shared between systems).*
- Publishing an H.R. 1 Implementation Plan laying out California's WCER policies, anticipated operational framework, and implementation approach *(first published January 2026; DHCS will publish an updated iteration in the fall to align with IFR updates).*

The release of the IFR has required California to revisit and reassess many of these previously finalized policies, business rules, operational processes, and supporting materials to determine the extent of the redesign necessary to align with the new federal requirements. DHCS has dedicated substantial resources to this significant and time-intensive effort, which began immediately upon the publication of the IFR. The dedicated teams are currently revising and refining substantial policy analysis, systems coordination, and operational design. Based on preliminary analysis, as a direct result of the new and unanticipated changes in the IFR, many of which represent a departure from prior CMS guidance that DHCS relied upon for implementation planning, DHCS has identified a need for 71 new business rules to be programmed, refined, tested, and finalized in California's integrated eligibility system, as further discussed below.

Further, California's implementation efforts have been complicated by post-IFR guidance released by CMS that has refined and, in some instances, reversed earlier CMS guidance. For example, at the end of August, DHCS received written updated guidance on operationalizing medical frailty that significantly alters the coding requirements and process for identifying members who are medically frail, with

corresponding verbal guidance shared on September 3, 2026. Additional key post-IFR guidance that will impact implementation readiness includes, for example, formal CMS guidance on allowable medical frailty verification approaches, whether states must apply a WCER lookback period to the months in which a member is being assessed for retroactive coverage, and additional detail regarding the specific data elements DHCS will need to collect and report to CMS. These changes are particularly consequential in California given the size and complexity of its Medicaid program, where even discrete policy changes require extensive systems configuration, testing, coordination, and operational preparation across a program serving approximately 14 million members.

These events have left insufficient time for DHCS to evaluate the requirements, revise and clinically validate the state's code list, translate the final methodology into system functionality, and complete integrated testing by January 1, 2027. For example, California built functionality for a retroactive coverage lookback period based on CMS verbal guidance provided in late May 2026. (Notably, the IFR was silent on any retroactive coverage requirements.) DHCS later learned through a subsequent CMS communication in late August that the lookback period would not be required. Reversing that functionality requires significant rework and documentation. This is merely one illustrative example of the myriad significant operational complexities necessitating wholesale eligibility system changes as a result of the new and unanticipated requirements in the IFR.

Concurrently, DHCS continues to await access to federal data sources for electronic verification (e.g., connections to education and veteran data via the federal data hub). Availability of new data sources will have downstream implications on systems design, policy and operational guidance, stakeholder engagement, and other domains of work, further impacting California's ability to meet the January 1, 2027 implementation timeline.

D. Eligibility Systems Design and Development. Since July 2025, DHCS has been designing and developing the technology infrastructure needed to implement WCER. Throughout this effort, DHCS has worked closely with its system partners to establish a shared understanding of WCER policy requirements and their implications for downstream systems.

Since August 2025, DHCS has engaged its longstanding IT systems vendor on a weekly basis to define and refine the business rules needed to support WCER implementation within California's eligibility and enrollment systems, including the CalSAWS and the CalHEERS. In June 2026, DHCS submitted an APD to CMS to secure federal funding for the significant systems modifications required to integrate WCER business rules into existing eligibility and enrollment workflows.

California's systems design and development work has involved:

- Meeting weekly with the IT systems vendor since August 2025 to review and validate business rules.
- Developing a comprehensive implementation roadmap spanning 10 key workstreams (governance, policy and operational design, operational and systems readiness, implementation partner engagement, CMS engagement, and monitoring and oversight) and approximately 60 project milestones in September 2025.
- Developing and maintaining a systems-specific implementation workplan.

- Designing, reviewing, and refining the business rules necessary to operationalize WCER requirements within CalSAWS and CalHEERS, including through over 30 all-day work sessions with the IT systems vendor.
- Developing and iterating on five versions of WCER business rules beginning in June 2025, culminating in a pre-IFR set of 286 business rules finalized on July 2, 2026.
- Executing a $58 million contract amendment with the IT systems vendor to support anticipated systems development activities associated with H.R. 1 implementation requirements, including WCER.
- Integrating finalized business rules into systems design and development efforts across CalSAWS and CalHEERS.

Based on CMS guidance provided to states prior to the IFR, in late May 2026 DHCS had assessed that the State was on track for a fully compliant January 1, 2027 launch, as communicated to and documented for CMS. Following the release of the IFR in June 2026, DHCS reassessed previously finalized systems requirements and developed a revised set of 71 business rules to reflect the new federal requirements. Due to the compressed timing of new guidance set forth in the IFR, DHCS will not be able to build, test, and implement these 71 new business rules by January 1, 2027.

In addition to the ongoing work with the IT systems vendor and system partners, California has also been exploring opportunities to establish new connections between its eligibility and enrollment systems and data sources that could support electronic verification of WCER exclusions, exceptions, and qualifying activities to the greatest extent possible. This work, ongoing since September 2025, has involved discussions with sister agencies, systems partners, and external vendors to evaluate available data sources and connections that could support automated verification. DHCS has been evaluating the potential use of health information exchange (HIE) data to support medical frailty determinations through more timely access to member health information, as well as working with vendors such as Equifax and TRUV, which can expand the range of timely income data available to support income verifications. DHCS continues to evaluate additional data sharing opportunities and system connections that could support electronic verification and reduce member burden and is also awaiting more information from CMS on the availability of federal connections to verify education and veteran status.

E. Member Notices and Communications. In preparation for WCER, California developed a comprehensive communications plan in August 2025 to coordinate outreach activities and establish a phased timeline for informing members of upcoming program changes. The plan captures communications in multiple modalities, including text message (utilized in a mass communication initiated in February 2026), outreach letters and FAQs (August 2026), and flyers (Fall 2026). All materials are in plain language, culturally responsive, and translated into all 19 Medi-Cal threshold languages. The communication strategy is intentionally phased to generate awareness and prepare members for actions they need to take ahead of programmatic changes taking effect, and then subsequently transition to supporting their ability to take action (e.g., responding to notices and completing renewal packets) as the changes roll out.

As part of early outreach efforts, CalHHS hosted a statewide webinar in July 2025 and several listening tours across California to hear feedback from stakeholders from 2025 through early 2026. DHCS hosted a statewide webinar on February 5, 2026 to share key provisions and answer stakeholder questions. In

addition, DHCS launched a plain language H.R. 1 webpage in July 2025 to serve as a centralized source of information for members, advocates, and other stakeholders and support early communication and awareness. DHCS also began posting information about work requirements on its social media channels beginning in July 2026.

DHCS has also undertaken a substantial body of work to revise its Medi-Cal application and renewal forms and develop a new medical frailty screener to incorporate H.R. 1 statutory requirements both pre- and post-issuance of the IFR. These updates include adding WCER-related questions to assess an individual's exclusion status at the time of application or renewal and, for applicable individuals, their exception or compliance status in the relevant lookback period. To support this work, DHCS partnered with a philanthropic foundation to conduct consumer testing on the revised materials to assess usability, accessibility, and plain language comprehension. This work began in January 2026 and was scheduled to involve two phases of consumer testing and focus groups through July 2026. However, the IFR introduced substantial new requirements (e.g., related to medical frailty, short-term hardship exceptions, and qualifying activities, described further in Section III below) that significantly alter the content and structure of these materials. As a result, DHCS must make extensive revisions to the previously developed forms and screening tools and restart the consumer testing process to ensure members can effectively understand and navigate the updated requirements prior to implementation. These changes also increase the risk of confusion among members and stakeholders who must understand and communicate requirements that have continued to evolve during the implementation period.

Separately, DHCS has undertaken substantial work to revise California's suite of member notices to accommodate WCER-related requirements. These include updates to outreach notices, eligibility determination notices, and other member communications, as well as the development of a new notice of noncompliance to be issued when the State is unable to verify an individual's WCER status. At the time of the IFR's release, DHCS had made significant progress in the months-long process to develop, review, finalize, translate, and program these notices into its systems for January 1, 2027 implementation. However, the IFR introduced substantial clarifications and new requirements regarding the circumstances under which notices must be issued, the timing of member communications, and the content that must be included. As a result, DHCS is revising previously drafted notices and related communication materials to ensure compliance with federal requirements.

In anticipation of increased obligations around member noticing and communications, DHCS secured $17.5 million through the state budget process to support communication activities and has engaged four separate media and outreach contractors to conduct a coordinated, multimodal outreach campaign starting in September 2026. This campaign will include paid outreach (radio, digital and out of home), ethnic and community media, and text and e-mail outreach.

F. Staff Hiring, Training and Operational Readiness. California has engaged in several staff hiring, training, and operational readiness activities as part of WCER implementation planning to support the significant changes required across eligibility operations.

Staff Hiring. Recognizing the significant administrative and operational demands associated with WCER implementation, DHCS proactively hired seven new staff positions in its Medi-Cal Eligibility Division

beginning in January 2026, to manage and support WCER implementation and dedicated existing staff, including senior leaders, to focus a substantial amount of time on WCER efforts. An additional $709 million was also allocated through FY 2026-27 enacted state budget to support county workforce development and implementation readiness efforts, reflecting the critical role counties play as the primary administrators of Medi-Cal eligibility and enrollment functions.

Training. DHCS has developed and continues to refine a comprehensive suite of training and implementation resources that translate federal WCER requirements into operational procedures and workflows for eligibility workers, call center staff, navigators, managed care plans, and other frontline staff. Resources include an H.R. 1 implementation plan, policy guide, call scripts, training webinars, and other materials, all of which will require significant additional refinement to align with the IFR.

California is also undertaking an organizational change management effort to compile and centralize access to the H.R. 1 implementation resources developed across DHCS, CalSAWS, CalHEERS, and Covered California (the state-based marketplace). For WCER alone, this encompasses approximately 60 training and implementation resources, including policy guides, job aids, systems manuals, workflow documentation, webinars, and other educational materials. The initiative is intended to improve accessibility, promote consistent implementation, support workforce readiness, and increase transparency regarding California's approach to implementing federally required changes. DHCS is leading weekly formal trainings for county eligibility staff ahead of WCER implementation; these trainings began in August 2026 and will continue through the end of the calendar year.

Operational Readiness. DHCS intends to conduct one-on-one county meetings with each of California's 58 counties to assess county readiness and provide tailored technical assistance prior to WCER implementation. These engagements are intended to evaluate operational preparedness, identify implementation challenges, and support counties in their preparation efforts. **Although these meetings were originally scheduled to occur between July and September 2026, the release of the IFR has required DHCS to reassess key eligibility policies, business processes, training materials, and operational workflows before readiness reviews can meaningfully proceed.** As a result, they will occur on a revised timeline aligned with California's updated implementation approach.

G. Stakeholder Engagement. DHCS has engaged in a broad range of stakeholder engagement to support and inform WCER implementation, including with counties, members, managed care plans, providers, navigators, community-based organizations, and other advocates to solicit feedback and inform key policy and implementation decisions. This includes monthly workgroups with advocates and community partners (initiated in August 2025 and ongoing to this day), monthly workgroups with counties (initiated in August 2025 and ongoing to this day), and monthly workgroups with managed care plans to solicit feedback on proposed program design and implementation.

In addition to these targeted stakeholder forums, DHCS also has regular and ongoing touchpoints with the public to support outreach, education, and awareness of upcoming WCER changes. These include quarterly DHCS Stakeholder Advisory Committee (SAC) meetings (held on 10/29/2025, 2/25/2026, 5/20/2026, and 8/19/2026), which provide stakeholders with implementation updates and information regarding upcoming program changes.

DHCS recognizes that ongoing stakeholder engagement will be critical to successful implementation of WCER, particularly given the significant changes introduced by the IFR. Prior to the IFR's release, DHCS had already communicated certain policy and operational guidance based on available federal guidance, and the IFR is requiring the State to revise previously communicated information and undertake additional stakeholder education and outreach. These efforts will be especially important in light of CMS' recent findings that members lack awareness about WCER and desire more specific, practical guidance to help them maintain coverage.

H. Coordination with CMS. DHCS has been in regular and close coordination with CMS to report out on the status of implementation, seek technical assistance, and ensure compliance with federal guidance. Since January 2026, DHCS has participated in one-on-one bi-weekly meetings with CMS' DSG to report out on progress towards building its WCER systems infrastructure, provide visibility into systems updates, and raise systems-related implementation questions.

Through these recurring engagements, DHCS has provided CMS with regular visibility into California's implementation efforts, including demonstrations of planned systems functionality and updates regarding major implementation milestones. This includes regular meetings and MVP documentation submitted to CMS beginning December 2025 and continuing to this day. **As consistently communicated during these meetings, and as reflected in the systems demonstration DHCS presented to CMS on May 28, 2026, California had made substantial progress toward January 1, 2027 implementation and was on track to meet that deadline based on the federal guidance available prior to the release of the IFR**. Upon the release of the IFR and after DHCS was able to conduct a full assessment of the changes, on June 18, 2026, DHCS communicated to the DSG team that the State was unlikely to be compliant with the IFR by January 1, 2027.

To stay up to date with CMS guidance, particularly related to verification hierarchies, auditable self-declarations, short-term hardship exceptions, and medical frailty, DHCS has participated in weekly National Association of Medicaid Directors (NAMD) meetings since January 2026 and the monthly CMS Eligibility Technical Assistance Group (ETAG).

Beyond these formal forums, DHCS executive leadership maintains ongoing communication with CMS leadership to discuss implementation progress, seek clarification on outstanding policy questions, and confirm the State's understanding of federal requirements. These engagements have been instrumental in informing California's planning efforts and underscore the State's sustained commitment to implementing WCER. Following the release of the IFR in July 2026, DHCS leadership met with CMS leadership and shared a detailed list of the specific new IFR requirements, as described in further detail in Section III, that the State would be unable to implement by January 1, 2027.

I. Risk Mitigation Planning. Since the establishment of a governance and project management structure in August 2025, DHCS has monitored implementation progress for January 1, 2027 WCER implementation. Despite best efforts, the release of the IFR introduced significant new requirements and departures from guidance previously communicated by CMS that fundamentally disrupted California's implementation assumptions and planning efforts. DHCS conducted a comprehensive assessment of the policy, operational, systems, training, and communications impacts associated with

the new requirements and evaluated available risk mitigation strategies in June and July 2026. DHCS has determined that California can no longer feasibly achieve full compliance with WCER by January 1, 2027.

DHCS proactively communicated this concern to CMS in its July 29 DSG meeting that it is no longer able to meet the January 1, 2027 timeline due to the need to, among other things, dismantle prior system builds and develop new system builds, including 71 new business rules for the integrated eligibility system to comply with IFR guidance. DHCS also communicated this risk to CMS leadership during its post-IFR release meeting in July 2026.

DHCS has since developed an updated implementation workplan reflecting the earliest feasible timeline for achieving full compliance with the IFR, which the State anticipates being July 2027.

Section III: Systems Barriers Preventing Implementation by January 1, 2027

Despite the substantial progress made to date, California faces significant and unprecedented barriers to achieving full compliance with the January 1, 2027 WCER implementation deadline because the IFR departs substantially from the statute and prior written and oral CMS guidance on which the State relied in developing its implementation approach. Aligning with the new requirements will require extensive revisions to WCER policies, business rules, operational procedures, workflows, notices, training, and supporting materials. Most significantly, the IFR requires substantial modifications to California's planned eligibility and enrollment system design across CalSAWS and CalHEERS.

These changes must proceed through a multi-phase process that includes translating policy decisions into detailed business requirements, designing and developing system functionality, validating the resulting logic, conducting rigorous testing, and deploying the updates. Each phase requires significant information technology, policy, testing, and staffing resources, as well as coordination among DHCS, the IT system vendor, CalSAWS, and CalHEERS. The extensive system modifications required by the evolution of CMS's guidance described below cannot be designed, built, tested, and deployed by January 1, 2027.

The following list highlights major policy, operational and IT systems business rules that need to be reviewed, updated, and finalized based on requirements established in the IFR.

> **Prioritizing Specified Exclusion Determinations.** The IFR establishes that a state must always give precedence to assessing whether an individual qualifies for a specified exclusion (i.e., determining if they are applicable individuals or not) prior to assessing compliance. In effect, this means a state must first determine whether an individual is a specified excluded individual before evaluating whether an exception applies or the individual has satisfied WCER. Because a specified excluded individual is not an applicable individual, the state may not proceed directly to evaluating qualifying activities or deemed compliance without first resolving excluded status. This sequencing must be incorporated into the eligibility rules engine at application, renewal, and any other point at which WCER status is assessed. This sequencing was not communicated as a requirement by CMS at any point prior to the IFR. DHCS will be unable to implement the necessary system functionality in compliance with the IFR requirements by January 1, 2027.

Verification Hierarchy. Within the specified excluded status determination, the IFR also requires states to apply a sub-hierarchy that prioritizes statuses that are unlikely to change or are expected to apply for a longer period (e.g., parents with children under age 14 and disabled veterans). DHCS therefore must develop system logic that can identify multiple potentially applicable excluded statuses, evaluate them in the required order, assign and track the controlling status and its duration, establish an appropriate reverification date, and account for changes that may cause an individual to become subject to WCER. The system must then carry the result forward to determine whether it should proceed to an exception or compliance determination. These statuses cannot be collapsed into a single indicator because specified exclusions, exceptions, and compliance through qualifying activities have different durations, verification requirements, and notice implications. This verification hierarchy was not communicated as a requirement by CMS at any point prior to the IFR.

These changes have cascading implications across DHCS' automated eligibility logic and operational workflows. DHCS must revise its verification hierarchy and business rules; configure new status, duration, and effective-date fields; establish rules for resolving overlapping statuses; modify application and renewal workflows; develop change-in-circumstance and reverification logic; update notices and worker procedures; and preserve an auditable record of the sequence and evidence used to reach each determination. DHCS will be unable to develop, integrate, and adequately test the system functionality necessary to support the verification hierarchy, including the specified excluded status sub-hierarchy, by January 1, 2027.

Medical Frailty Exclusion. The IFR departs materially from the statute and prior CMS guidance by requiring states to determine not only whether an individual has a qualifying medical condition, but also whether that condition significantly impairs the individual's ability to satisfy WCER. The IFR further requires states to develop auditable and clinically justifiable lists of diagnoses and other health conditions to identify individuals who may qualify for the medical frailty exclusion, while preserving a separate process for individuals whose conditions are not included on those lists. The significant change in requirements, coupled with CMS's delayed release of its medical frailty verification framework, provided for the first time in September 2026, has taken valuable time and resources away from the DHCS team that otherwise would have been devoted to critical design and testing activities across other areas of implementation. DHCS must now evaluate the new framework, revise and clinically validate its medical frailty methodology and code lists, translate those decisions into business rules and system functionality, and complete integrated testing before implementation. Compressing these complex and interdependent activities into the remaining period before January 1, 2027 would heighten the risk of system and downstream processing errors, improper terminations, and other administrative failures affecting eligible individuals.

Qualifying Activities. The IFR establishes new rules governing how states must calculate, document, and combine qualifying activities for individuals who do not independently satisfy WCER through monthly income or at least half-time enrollment in an educational program. For individuals earning less than the monthly income threshold, the state may convert earnings into equivalent work hours and combine those hours with other qualifying activities, as applicable. For individuals enrolled less than half-time, the state must apply different calculations

depending on the educational program: one credit hour equals three hours of educational activity per week for programs using credit hours, while programs that do not use credit hours are calculated based on actual participation hours. The state must then aggregate those education hours with hours attributable to employment, community service, or work-program participation to determine whether the individual satisfies the 80-hour monthly threshold.

These requirements introduce new calculation, conversion, and aggregation rules not contemplated prior to issuance of the IFR that must be incorporated into DHCS' WCER verification process and corresponding system logic. DHCS must develop functionality to identify the applicable calculation methodology, obtain and evaluate income and education data, convert income and educational participation into hours, aggregate hours across multiple qualifying activities, and preserve the basis for the determination in the case record. In addition, for community service, the IFR requires states to capture specific information about the relevant activities completed, including sufficient detail for caseworkers to evaluate whether the activity was partisan in nature as well as the activity type, dates and hours completed, and a confirming point of contact at the sponsoring organization. These aforementioned changes will require corresponding updates to business rules, data interfaces, member reporting pathways, notices, worker procedures, manual-review protocols, and end-to-end testing. DHCS will be unable to design, develop, and adequately test the system functionality necessary to implement these new IFR requirements by January 1, 2027.

Hospital Presumptive Eligibility (HPE). The IFR requires states to apply WCER within the HPE process, adding a substantive WCER assessment to a pathway designed to provide expedited, temporary coverage. DHCS must revise hospital-facing applications and train hospital staff to assess applicable-individual status, specified exclusions, exceptions, and compliance.

These changes also require new system functionality to capture the basis for the HPE determination, transmit relevant information from hospitals, route unresolved issues to the appropriate verification pathway, support accurate notices, and preserve an auditable record. Implementing this functionality will require coordinated policy development, revisions to hospital and county workflows, training, and end-to-end testing across the HPE and full eligibility processes. DHCS does not have adequate time to train and provide assistance to qualified providers to ensure they can make accurate HPE determinations and provide useful guidance to applicants by the implementation date.

Further, as is common with any extraordinarily complex eligibility systems serving large numbers of people, DHCS must operate within established schedules that limit when changes can be deployed to CalSAWS and CalHEERS. **California's eligibility systems are updated through a structured release process that permits major system changes only during designated windows in February, June, and September.** DHCS does not have the ability to make changes off-cycle or deviate from the established timeline without it threatening access not just to Medi-Cal, but also to other benefits such as SNAP and TANF, as well as Covered CA. **Because the IFR was not released until June and has prompted a need for approximately 71 new business rules that must be refined, finalized, tested, and programmed, the September 2026 release is not a viable option for making system updates without jeopardizing**

Covered CA's open enrollment. DHCS, however, continues to work closely with CalSAWS and CalHEERS to prepare for scheduled updates in June of 2027 that integrate the new IFR requirements.

Additionally, California must manage other time-sensitive eligibility and enrollment system changes that are required under federal and state law alongside WCER implementation. These include the implementation of other major changes required under H.R. 1, including modifications affecting SNAP eligibility processes and Marketplace-related changes. Because DHCS, CalSAWS, and CalHEERS rely on the same technical and operational resources to implement these mandatory changes, the extensive system redesign required by the IFR for WCER must compete with other required changes for the same resources. These SNAP- and Marketplace-related change requests have been in the implementation queue significantly longer than DHCS's post-IFR systems modifications, which were more recently necessitated by the IFR's June 2026 release. As a result, these other initiatives make it infeasible for DHCS to complete the extensive IFR systems changes needed by the January 1, 2027 implementation deadline.

Section IV: Plan for Achieving Full Compliance

California has made a documented, good faith effort to implement WCER in accordance with H.R. 1 and was on track to meet the original January 1, 2027 statutory deadline based on the federal requirements and guidance available prior to issuance of the IFR, as documented to CMS as recently as May 2026. The new requirements introduced by CMS in June 2026, however, require significant changes to California's planned policy, systems, and operational approach that cannot be completed by January 1, 2027.

Following extensive review by the DHCS WCER core team, executive leadership, internal staff, and systems partners, DHCS has determined that July 1, 2027 is the earliest feasible date by which California can fully implement the IFR requirements. The additional six months are necessary to complete the design, development, integrated testing, and deployment of significant changes across California's eligibility and enrollment systems, including CalSAWS and CalHEERS, as well as the associated policy, operational, notice, training, and stakeholder-readiness activities.

Accordingly, DHCS is requesting a good faith effort exemption through June 30, 2027. During the exemption period, California would maintain its existing Medicaid eligibility and enrollment processes while directing its resources toward a single, fully IFR-compliant WCER implementation beginning July 1, 2027. DHCS would continue policy development, system design and development, integrated testing, operational readiness, notice development, training, and stakeholder engagement throughout this period.

DHCS would also comply with applicable federal reporting requirements and provide CMS with regular updates regarding implementation milestones, identified risks, mitigation activities, and readiness for implementation. This defined implementation period would allow California to complete the work necessary to implement WCER accurately and consistently across its eligibility and enrollment infrastructure while protecting eligible Californians from unnecessary coverage losses that could result from deploying incomplete or noncompliant functionality before the State's systems are ready.

Approval of the requested exemption would therefore enable California to devote the additional six months necessitated by the IFR to completing a responsible and fully compliant implementation,

consistent with the purpose of the good faith effort exemption for states that have diligently pursued implementation but are unable to meet the statutory deadline because of circumstances outside their control.

Section V: Exigent Circumstances

DHCS is not requesting this good faith effort exemption on the basis of extraordinary or exigent circumstances. DHCS' request for a six-month waiver is based on the continuous good faith efforts the state has put in place since August 2025 and the considerable amount of policy, systems, and operational work that is still required to go-live in full compliance with the IFR.

Section VI: Conclusion

California has deployed every available resource in its efforts to prepare for WCER implementation. However, despite substantial planning and ongoing investments in program design and implementation, and despite demonstrating to CMS as recently as May 2026 that California was fully prepared to go live on January 1, 2027 consistent with CMS guidance provided to-date, the State cannot reasonably achieve full compliance with the new and unanticipated requirements introduced in the IFR by January 1, 2027 without creating systemic risks, jeopardizing member protections, and possibly interrupting operational continuity. As such, DHCS requests a six-month extension to secure the additional time necessary to develop and deploy a solution that fully aligns with the requirements, spirit, and intent of H.R. 1 and the IFR. This will ensure that implementation is compliant and sustainable while minimizing the risk of member harm.